

GLOBAL INITIATIVE

AGAINST TRANSNATIONAL ORGANIZED CRIME



UNDER THE SHADOW

Illicit economies in Iran



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October 2020

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Cover: Senior military commanders salute troops during a parade commemorating the anniversary of the Iran-Iraq war on 22 September 2011, Tehran. © *Kaveh Kazemi/Getty Images*.

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ACRONYMS AND GLOSSARY

AML	anti-money laundering
Artesh	Iranian Army (separate from the IRGC)
Basij	'people's militia' (paramilitary volunteer militia under the IRGC)
BMP	black-market premium
<i>bonyads</i>	charities which control large parts of Iran's economy
CBI	Central Bank of Iran
CFT	combating the financing of terrorism
DCHQ	Iranian Drug Control Headquarters
EDC	Expediency Discernment Council
FATF	Financial Action Task Force
GHORB	Khatam al-Anbiya Construction Headquarters
INCB	International Narcotics Control Board
IRGC	Iranian Revolutionary Guard Corps (aka Sepah)
JCPOA	Joint Comprehensive Plan of Action (aka the Iran nuclear deal)
Majles	Iranian Parliament
NAJA	police force of the Islamic Republic of Iran
NSPs	needle and syringe programmes
OECD	Organization for Economic Cooperation and Development
OST	opioid-substitution therapy
OTC	over-the-counter (pharmaceuticals)
<i>shireh</i>	opium molasses
<i>shisheh</i>	crystal methamphetamine
Quds	Force branch of the IRGC
UNODC	United Nations Office on Drugs and Crime
UNTOC	United Nations Convention against Transnational Organized Crime
<i>vafoor</i>	opium pipe

Opium sellers weighing their drugs in an open-air market, early 20th century. ►

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EXECUTIVE SUMMARY



Illicit economies have become an entrenched part of Iran's political, economic and cultural life. For some, they offer a way of earning a living in desperately harsh economic circumstances; for others, they are the means to aggregate wealth and political influence. Illicit economies can be found at every level of Iranian society, from allegedly funding Iran's extra-territorial ambitions in the Middle East to helping the opium-smuggling truck driver get his next fix.

The rise of illicit economies since the Islamic Revolution in 1979 has been driven by internal and external pressures. Decades of Western sanctions have taken a devastating toll on the Iranian economy, exacerbating unemployment and creating shortages of everything from foreign currency to everyday goods. This situation has led to the rise of smuggling and other illicit activities by state and non-state actors seeking to circumvent sanctions restrictions. For some, evading sanctions is essential in order to secure supplies of everyday basic goods and earn a livelihood, but for criminal networks and state actors, sanctions represent an opportunity to generate huge revenues, which in the case of the state is used to prop up the economy, pay patronage networks and support various armed groups in the region. The renewed wave of sanctions imposed by the US after it withdrew from the JCPOA and the impact of the coronavirus pandemic are both likely to deepen the reliance on illicit economies across the whole spectrum of Iranian society. But counter to President Donald Trump's intent, this situation is likely to strengthen the Iranian Revolutionary Guard Corps (IRGC), which is one of the largest state actors operating in the criminal sphere.

Internally, the regime's vision of 'protecting' its citizens against the malign influence of the West has enabled it to take control of every aspect of public and private life in Iran. Although democratic institutions exist, the real power in Iran lies in a complex network of unelected and unaccountable institutions under the control of the supreme leader. This political arrangement has fostered a climate of corruption and undermining of the rule of law that has blurred the line between what is legal and illegal – an ambiguity that has facilitated the rise of illicit economies. State institutions

◀ Ayatollah Khomeini, founder of the Islamic Republic of Iran and leader of the 1979 Iranian Revolution, and Ali Hosseini Khamenei, the current Supreme Leader of Iran.

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now profiteer off both the licit and illicit economies (activities tacitly justified as defending the achievements of the revolution), although corruption has become so entrenched that it is now a crucial prop to the regime's authority via the patronage networks, paid for by oil and gas rents, that underpin the state's control, especially in the face of growing popular antipathy towards the regime.

The role of illicit economies in Iran has also been transformed by the country's emergence as a key transshipment hub in the international drugs trade, particularly for Afghan opium destined for the Balkan and Southern routes. Elements of the Iranian state (such as the IRGC) are reportedly involved in drug trafficking, as are organized-crime networks overseeing the drugs supply chain to end consumers in Europe and Russia. But many of those in the business are from marginalized and impoverished communities in Iran's borderlands, for whom the drugs trade offers a crucial economic lifeline.

The spillover effects of the international drugs trade on Iran have been significant: the country has second-highest prevalence rate globally of adults suffering from illicit-opiate dependence (surpassed only by Afghanistan). Aside from blaming the West for the problem, the state's response to drugs is complex and in some ways contradictory. While alleged involvement in drugs by state actors is tacitly accepted, the country hands out harsh punishments, including the death penalty, for non-state actors involved in drugs trafficking. However, Iran has also implemented some of the most progressive harm-reduction programmes in the Middle East, although there are signs of a more punitive and less scientific approach taking hold in recent years.

This report examines the issue of illicit economies in Iran through two lenses. The first section examines the role of the state, focusing on the power and patronage systems that have underscored the evolution of a circular and corrupt system of governance. Sub-sections explore Iran's compliance with international regulatory frameworks, such as the Financial Action Task Force's (FATF) demands of compliance with anti-money laundering (AML) and combating the financing of terrorism (CFT) regulations. Consequently, the report analyzes the role of the IRGC and their direct involvement in both domestic and international illicit enterprises, tracing their evolution into perhaps the most important actor politically and economically (besides the supreme leader). The first part concludes with an overview of sanctions evasion and the expansion of smuggling (and reliance on the illicit and informal cross-border trade by both government entities and rural communities), supported by a corrupt currency exchange system that favours those with ties to the ruling elite.

The second part studies drug markets in Iran, drawing upon the testimonies of police officers, treatment providers and individuals with direct involvement in the illicit drug market. Through multiple interviews with these individuals and based on a review of the literature, this part outlines the current state of the drugs trade, focusing on flows, market dynamics and corruption. A sub-section provides insights into the underlying logics of Iranian drug policy, outlining the reasoning behind what seems like a paradoxical drug-control system. By showcasing the testimonies of individuals involved in drug supply, the report demonstrates how supply chains operate and the market dynamics in smuggling drugs from the borderlands to major urban areas, and the subsequent distribution of drugs to the retail markets. The second part ends with an overview of the rising (and shifting) methamphetamine trade in Iran, outlining the internal factors and market shifts that have preceded this augmentation of the methamphetamine trade.

Key points

Findings on the state and illicit economies

- Political and economic power lies in the unelected institutions of the Iranian state, particularly in the councils and organizations that lie under the control of the supreme leader.
- Institutions under direct control of Supreme Leader Ayatollah Ali Khamenei include the Council of Guardians, the IRGC and the Basij, while he also wields indirect control over other institutions such as the religious trusts, or *bonyads*, and the vast network of businesses under the IRGC.
- These unelected and unaccountable entities have turned external sanctions and economic pressures into lucrative revenue-generating opportunities, for example through manipulating the currency trade, engaging in the smuggling of fuel and other resources and by taking control of public infrastructure projects. The survival of this political-economic elite has become predicated on their corrupt practices and involvement in various illicit economies and large-scale smuggling enterprises.
- Sanctions, endemic corruption and domestic political and economic pressures have driven reliance on illicit and informal trades – particularly cross-border smuggling – for both state, non-state actors and marginalized communities, with the result that the Iranian economy has become dependent on informal and illicit channels for the flow of goods and resources.
- Iran's formal economy faces stark challenges in the near future, having been decimated by renewed sanctions after the US withdrawal from the JCPOA and the impact of the coronavirus pandemic.
- These challenges will continue to entrench the role of the informal and the illicit in Iranian politics and economics moving forward, with state actors selectively punishing some individuals involved in illicit economies while giving other corrupt government entities free rein.
- In the absence of meaningful trade deals and dialogues with the West, Iran will continue to play a pivotal role in the illicit flows of goods and resources.

Findings on illicit drug markets in Iran

- One of the most important illicit economies in Iran is the illicit drugs trade, with the country acting as the most important transshipment point for Afghan opiates through the Balkan and Southern routes globally. This has had a transformative effect on the Iranian borderlands, where ethnic-minority communities have become heavily involved and dependent on the drugs trade and smuggling of other goods and resources.
- Rapid changes are evident in the drug economy, as over the past 18 months Iran has quickly evolved into a transshipment point for Afghan-produced methamphetamine.
- Early reports suggest that cheap Afghan methamphetamine is being consumed in Iran, while unknown quantities of the substance are being exported to global markets. This is an issue that will need close monitoring in the future.
- Enormous revenues are generated from the illicit flow of drugs, and there are widespread accusations of state complicity in the trade as a means to shore up finances and project power in the region. Questions remain as to whether state involvement is led by certain individuals or represents organization-wide accepted practices (e.g. in the case of the alleged involvement of the IRGC and Quds Force in the drugs trade and smuggling of fuel and other resources).



INTRODUCTION



America is the number-one enemy of the deprived and oppressed people of the world. There is no crime America will not commit in order to maintain its political, economic, cultural, and military domination of those parts of the world where it predominates.

AYATOLLAH KHOMEINI, 12 SEPTEMBER 1980¹

The narrative that the threat to Iran's society and economy is fundamentally external has been repeated by those in power since the inception of the Islamic Republic of Iran in 1979. This discourse has been forged on the threat of the West, popularised as 'Westoxication' by prominent Iranian intellectuals such as Samad Behrangī, Jalal Al-e Ahmad and Ali Shariati in the lead up to the Islamic Revolution.² Counteracting this threat became part of the animating spirit of the revolutionary regime, which claimed that it would protect the *mostazafin* (the disinherited or downtrodden) against Western imperialism and corruption.

In combination with other factors, the revolutionary regime used this 'protective' posture to assume unprecedented control over every sphere of Iranian public and private life. Iran's first supreme leader, Ayatollah Ruhollah Khomeini, established a system based on *velayat-e faqih* (guardianship of the jurist) and instigated a return to 'traditional values' and a political system based on Shia Islamic doctrine. To enforce the new social order, the supreme leader and his institutions instigated a pervasive network of political surveillance and became the unquestionable authorities on standards of public morality and ideological conformity.³ The existential crisis faced by the nascent Islamic Republic in the war with Iraq (1980–1988) and the undermining of Iran by Western powers (which supported Saddam Hussein's regime during the conflict) further cemented anti-Western sentiments among the ruling elite. Successive waves of sanctions against the state and its subsidiaries and the fallout from the international drugs trade (consistently framed by revolutionary propaganda

◀ A US and an Israeli flag are set on fire during a funeral procession for slain IRGC Commander Qasem Soleimani, Tehran, 6 January 2020. © Atta Kenare/AFP via Getty Images



Exiled Ayatollah Khomeini addresses Iranian students gathering for a meeting in the garden of his home near Paris, 1978. © Bettmann Archive via Getty Images

as instigated and exacerbated by the West) also hardened anti-Western attitudes and further entrenched the idea that the fundamental threats to Iran lay beyond its borders.

The report finds that four decades since the birth of the Islamic Republic, many of the threats it faces today are indeed 'external'. The West remains Iran's arch-nemesis, the source of the heavy sanctions that have crippled the Iranian economy and the ideological opponent of the Islamic Republic. The Joint Comprehensive Plan of Action (JCPOA, also known as the Iran nuclear deal), brokered by President Barack Obama in 2015, offered a temporary respite from economic pressures, but sanctions were reimposed in 2018 after President Trump withdrew the US from the deal and instigated his campaign of 'maximum pressure' against Iran, with devastating economic effect. Even before the coronavirus pandemic, the World Bank and IMF estimated that Iran's GDP would fall by 8.7% in 2020 and inflation increase by 38%. At the time of writing, the EU had pledged to honour the nuclear deal and maintain trade ties with Iran, in particular through INSTEX, a payment vehicle designed by the EU in early 2019 to enable companies to trade with Iran while bypassing US sanctions. However, INSTEX has been heavily criticized and questions remain as to whether it is fit for purpose. Ultimately, in the absence of any meaningful trade deals and effective mechanisms for conducting business between Iran and the West, pressures on the Iranian economy will continue to increase.⁴

The combination of external threats and domestic corruption has created a potent and toxic situation. External pressures have driven the expansion of illicit economies, which help prop up the regime and exacerbate corruption, which in turn have been the target of further sanctions – creating an almost circular system whereby foreign pressures have effectively strengthened the grip of the political-economic elite, while marginalizing ordinary Iranians.

But despite these external pressures, this report shows that arguably the most severe threats facing the Iranian state are internal,⁵ in terms of how the state is increasingly moving towards a more classical model of a militarized autocratic or authoritarian state, with the semblance of democracy increasingly withering away. This process has been driven by decades of widespread corruption, an increasing lack of transparency

in governance and policymaking and a systematic undermining of the rule of law by political and economic elites. The result of these practices is that the line between what is considered legal and illegal has been constantly blurred. This ambiguity has been an important contributing factor to the expansion of illicit economies in Iran over the past three decades, and has resulted in a large cross-section of Iranian society – from the elite through to marginalized and vulnerable communities – becoming increasingly dependent on the proceeds generated from informal or illicit enterprises. Indeed, illicit economies now form a key part of political, economic and social life in Iran – to the point where the continuance of the Islamic Republic arguably depends on such economies.

The same rules, however, do not apply to all. While the Iranian state frequently claims that fighting corruption is one of its key focuses, accusations against state actors for corrupt practices are often met with silence (or reprisal). Meanwhile, the marginalized communities who have developed a dependence on illicit economies (driven by poverty, insecurity and a corrupt state) are used as scapegoats and labelled ‘moral corrupters’ of society. When state actors, by contrast, engage in such practices, it is either tacitly or openly agreed that this is key to the endurance of the ruling system and its support of foreign proxies.

This report evaluates the emergence and expansion of illicit economies vis-à-vis current internal tensions and external pressures. The first part of the report explores how corruption and a circular system of governance has produced a ruling political-economic elite that is dependent on the proceeds from various illicit enterprises in order to remain in power. The second part of the report focuses on the drugs trade in Iran, drawing on interviews with key informants involved in the flow of drugs to show how the intersection of poverty, insecurity and a corrupt state has pushed vulnerable and marginalized communities to become involved in the illicit industry. As with other illicit economies, allegations of state involvement in the drugs trade are rife and have further undermined public faith in governance.

Power and patronage

Although the Iranian state maintains a pretence of democracy (one that is arguably withering away), de facto power lies in the unelected institutions, particularly in the councils and the organizations that lie under the control of the supreme leader, either directly (such as the IRGC and the Basij) or indirectly (such as the religious trusts, or *bonyads*). These unelected and unaccountable entities are profiting the most from the external sanctions and economic pressures, for example through the manipulation of the currency trade and by engaging in the lucrative smuggling of fuel and other resources, while the civilian population has been devastated by socioeconomic pressures and struggled with rapid increases in the cost of household goods and basic foodstuffs. Experts have long argued that elements of the Iranian state are heavily involved in enabling illicit flows across the region and beyond, for example through financing and supporting armed groups in Iraq, Syria, Lebanon and Yemen. Through interviews with a range of individuals either directly involved in illicit economies or with insights into the Iranian political system, the report finds support for these arguments.

Illicit economies now form a key part of political, economic and social life in Iran – to the point where the continuance of the Islamic Republic arguably depends on such economies.



A man warms his *vafoor* (opium pipe) over a gas cooker in a house in Tehran. © Kaveh Kazemi/Getty Images

Drugs and Iran

Iran has a lengthy history of drug production and use, particularly in regard to opium. Over the past four decades, the country has emerged as a key transshipment and production point for illicit drugs bound for lucrative global markets, a shift that has coincided with the surge in demand for drugs in the West and the rise of heroin production in Afghanistan.⁶ Until recently, the country was also a major producer of methamphetamine for domestic consumption and export.

Iran's role in the international drugs trade has had major consequences for communities along the drug supply chain, with the industry providing a vital source of income for some while undermining the health and security of others. Iran is consistently ranked first or second in the world in terms of adult dependence on illicit opiates and the prevalence of substance-use disorders,⁷ with recent comprehensive studies claiming that previous estimates grossly underestimated the extent of drug use in the country.⁸ Ill-designed government interventions since the 1979 revolution have exacerbated the impact of the drugs

trade, with Iranian drug policy forming a 'paradigm of government that deals with social crisis and ethical disorder without the objective of solving it'.⁹

The result is confusing and at times paradoxical: on one hand, more than 10 000 people have been executed for drug-related offences since the Islamic Revolution, and the country continues to reserve some of the harshest punishments for individuals involved in drug supply. (A moratorium on the death penalty for drug-related offences was announced in late 2017, but an alleged drug dealer was executed in January 2020, and several exemptions remain for the use of the death penalty for drug offences.) On the other hand, the Iranian state has since the late 1990s been at the forefront in the region and beyond in terms of implementing treatment modalities for drug users, such as opioid-substitution therapy (OST), and needle and syringe programmes (NSPs), among others. However, widespread corruption, the emergence of non-evidence-based 'treatment camps' since 2010 and a recent shift in government policy away



Mask-clad worshippers participate in Eid al-Fitr prayers at the Emamzadeh Panjtan shrine on 24 May 2020 in Tehran.

© Majid Saeedi/Getty Images

from harm reduction threatens the system as it stands. Moreover, the involvement of state entities in the drugs trade is exacerbating the already damaged legitimacy of government institutions and undermining public faith in governance.

Drawing upon the testimonies of police officers, treatment providers and individuals with direct involvement in the illicit drug market, the second section of the report

explores the current state of the drugs trade, focusing on flows, market dynamics and corruption, as well as providing insights into the underlying logics of Iranian drug policy, outlining the reasoning behind what seems like a paradoxical drug-control system. The section also analyzes the internal factors and underlying market forces behind the rising (and shifting) methamphetamine trade in Iran.

The coronavirus pandemic

While Iran–US tensions and the collapse of the JCPOA featured prominently in global political discussions at the beginning of 2020, the rapid spread of COVID-19 across the globe redirected attention. Iran became one of the worst-affected countries outside China during the initial outbreak of the pandemic.¹⁰ The outbreak in Iran is widely thought to have been severely worsened by the authorities denying the presence of the virus in the country for several weeks, allowing it to spread as the nation marked the 41st anniversary of the Islamic Revolution and held a parliamentary election where authorities already feared

low voter turnout. By 15 March, official figures stated that there were more than 14 000 official cases of COVID-19, with 724 deaths¹¹ – both figures widely considered underestimates, as the Iranian government often manipulates statistics for propaganda purposes.¹² Even a report by the Iranian Majles in early April stated that the death toll was likely double the official figures, and infection rates likely eight to 10 times higher. By 18 July, Iran had 270 000 cases, with at least 13 979 deaths.¹³ On 3 August, an investigation by BBC Persian released details of how the Iranian government had covered up

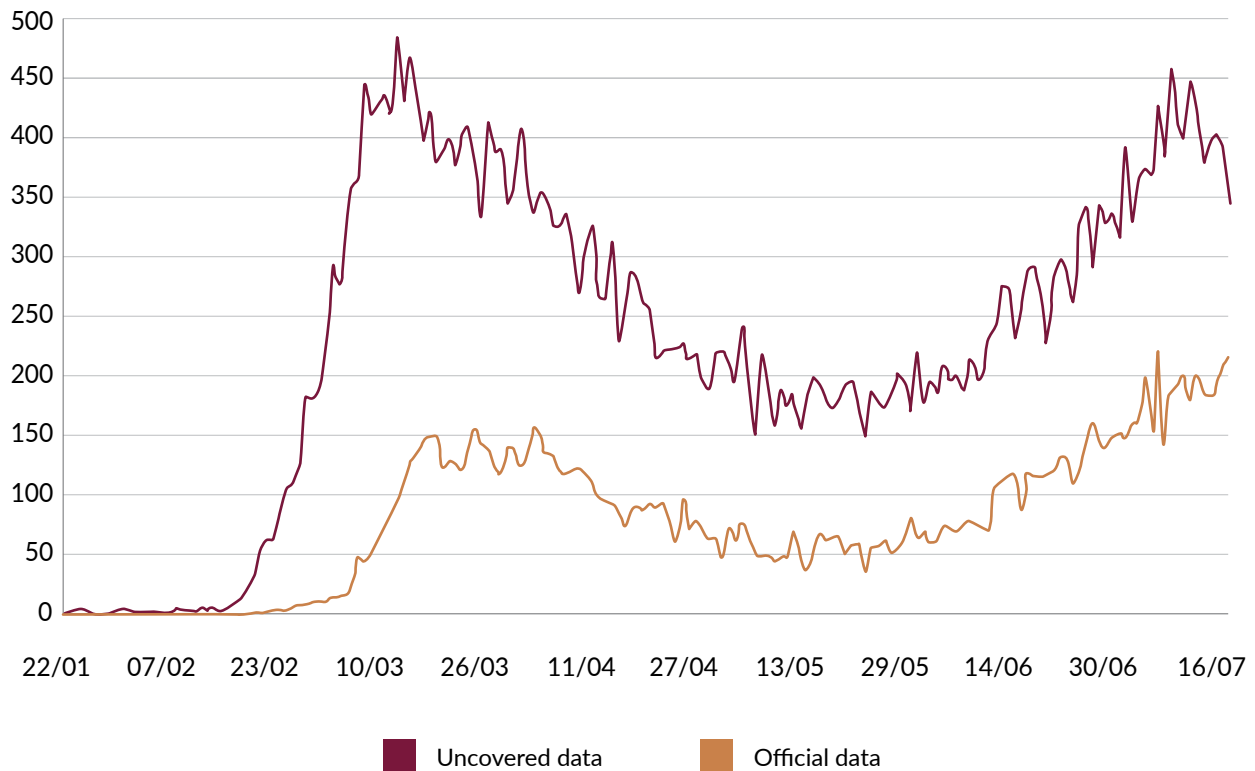


FIGURE 1 Daily rate of deaths from COVID-19 in Iran, official government figures versus data leaked to the BBC covering the period 22 January to 20 July 2020.

the extent of the disease, with COVID-19 deaths nearly triple what the government had reported (almost 42 000 versus 14 405) by 20 July, and overall cases almost double (451 024 versus 278 827).¹⁴

Public officials have blamed the Iranian government's inability to deal with the situation on US sanctions. Although sanctions technically permit the provision of medical supplies and equipment, companies are worried of reprisals from US authorities should they engage in new business deals with companies in Iran (and the due diligence process is highly complicated). Ariane Tabatabai, an Iran specialist at the RAND Corporation, says there are a number of issues related to sanctions and the provision of medical supplies to Iran, 'including the inability of Iran having access to [international] banks, companies not being able to process payments and so on ... Iran has not been able to actually get access to a lot of humanitarian goods.'¹⁵ In other studies, sanctions have been found to have had detrimental impacts on humanitarian supplies to Iran, resulting in negative health outcomes for vulnerable and marginalized populations.¹⁶ Despite these issues, INSTEX concluded its first transaction in late March 2020 to facilitate the export of medical goods to Iran.¹⁷

In early April, most restrictions were removed as official figures showed a decrease in the daily infection rate (although it subsequently increased sharply). Iran analysts have widely argued that the reason for easing restrictions was to relieve the pressure on the economy, as the leadership cannot afford further restrictions.¹⁸ At the time of writing, prospects for the Iranian economy appear extremely bleak, although an 'investment and security pact' with China was announced in July 2020, securing Chinese investments in Iranian industry and infrastructure over the next 25 years (totalling a reported US\$400 billion) in exchange for China receiving a discounted supply of Iranian oil over the same period.¹⁹

Expanding reliance on illicit economies

The findings of this report suggest that the Iranian state will become more reliant on illicit enterprises, particularly in the face of increased-sanction pressure and the severely detrimental impact of the coronavirus pandemic on the Iranian economy. Indeed, this trend is already evident in the increasing oil exports to Syria, the tactic of turning off the automatic identification systems of oil tankers²⁰ and an expansion in cross-border smuggling (as shown by an initial review of satellite imagery along the Iran–Afghanistan and Iran–Iraq borders).²¹ While the ‘investment and security pact’ with China will provide some relief to Iran’s faltering economy, it is highly probable that Tehran, the supreme leader’s institutions and other corrupt government and business officials will continue to expand their reliance on informal and illicit trades to keep the economy moving.

Secondly, due to these socio-economic pressures, it is likely that the drugs trade will expand, with rises in disorders related to substance use as people seek to cope with trauma and other pressures. Transformations in the drugs trade are already visible in the case of methamphetamine production, which appears to have moved across the border into Afghanistan, although the long-term consequences of this change is unclear. This issue is further complicated by the fact that rural populations are becoming increasingly reliant on the proceeds from informal and illicit economies, particularly ethnic minorities involved in smuggling across the Iranian borderlands.²²

This involvement will likely be met with harsh repression from the Iranian state, exacerbating the negative effects of the drugs trade and disproportionately affecting already vulnerable and marginalized communities, particularly ethnic minorities. When faced with increased economic pressure and political disarray, the Iranian state has shown a track record of swiftly identifying and suppressing suitable enemies to blame for the state of affairs. As stated by Danish sociologist Janne Bjerre Christensen in relation to her work on illicit drugs in Iran, ‘whenever the regime faces escalating crises, internally or externally, the public hangings of drug users increase’.²³

Meanwhile, the large-scale involvement of corrupt government entities in various illicit flows will continue. The result will be an Iranian state whereby all facets of society are in some form or another impacted upon by the convergence of corruption and illicit flows, and an economy and a political elite which are dependent on the preservation of illicit enterprises.

The supreme leader’s institutions and other corrupt government and business officials will continue to expand their reliance on informal and illicit trades to keep the economy moving.

Methodology

The report is based on a review of existing literature in conjunction with interviews and observational data gathered in a number of contexts of relevance (such as official policy meetings and places where drugs are trafficked, sold and consumed). Interviews were conducted with more than 25 key informants with unique insight into the areas covered by the report. These individuals were chosen for their expertise in the Iranian state and its interventions in the underground and illicit economy, their understanding of specific illicit economies in Iran or for their direct involvement in illicit flows. These interviews were conducted over several months between late 2018 and 2019, with some follow-up interviews conducted in 2020. Certain key informants were interviewed several times

to build a deeper understanding of illicit flows, state interventions and broader market dynamics. All interview data was analyzed and coded in accordance with recognized best practice to identify linkages and information of particular interest. Due to the sensitive nature of this report, and to safeguard the anonymity and confidentiality of research participants and their communities, all names have been altered and personal identifiers have been removed.

The dangers of conducting social-scientific research on topics of sensitivity in Iran pose great obstacles to developing new knowledge and analysis on these issues. Iran has a track record of interfering with the research of both domestic and foreign scholars, as evidenced by many high-profile imprisonments and detentions.²⁴ This, together with many other political and social challenges, makes it very difficult to conduct effective social-scientific research in Iran and on entities controlled by the supreme leader in particular. As such, the report has several limitations.

Most importantly, individuals from state institutions who were likely to be actively involved in illicit economies in Iran were not interviewed or involved in the research. It is extremely difficult to get access to those institutions (as approvals for research have to be granted at the highest levels and after extensive vetting by the Ministry of Intelligence), and it is highly unlikely that their involvement would generate any useful data, as Iranian government officials seldom stray from official narratives on sensitive issues. Moreover, alerting Iranian government authorities to this research could have compromised the safety and security of research participants and their families. Secondly, while the report relies on interviews with key informants and experts in Iran, and an extensive analysis of the available literature and open-source information (e.g. in newspapers), further research using mixed methodologies and a larger sample size is needed to shed further light on the expansion of illicit economies in Iran. Due to endemic corruption and the absence of accountability across government institutions, the Iranian state publishes extremely limited open-source information and data on the issues of relevance to this report. Moreover, the quantitative data published by the state should be interpreted with extreme caution, as there is often a political agenda behind manipulating information around topics of sensitivity.²⁵ In the absence of reliable official

data, the use and combination of traditional and novel methods are needed when conducting research in Iran. For example, this means combining fieldwork observations and interviews (if these can be conducted safely) with the analysis of satellite imagery. While combining such methods was outside the remit of this report, future research might be able to use satellite imagery combined with on-the-ground fieldwork to estimate the scale and extent of unofficial border crossings along Iran's borders and the quantities of goods flowing across these points.

Understanding illicit economies

Globalization has accelerated the growth of illicit activities, enabling organized-crime actors to gain greater access to global commerce and networks.²⁶ The scope, volume and range of illicit trade have increased its potential negative economic and political impacts, with the networks involved in illicit trade more global than ever, having adapted to interdiction by establishing fluid structures and methods that remain understudied.

Meanwhile, estimates as to the size of the global illicit economy vary considerably. A 2011 study by Global Financial Integrity estimated the size of the global illicit economy at US\$650 billion,²⁷ a figure recognized as an underestimate in the 2015 World Economic Forum briefing papers on the state of the global illicit economy.²⁸ More recently, in 2016, the Organisation for Economic Co-operation and Development (OECD) estimated that the profits alone derived from various illicit economies by international organized crime were as high as US\$870 billion annually.²⁹ However, the OECD figures were based on a 2011 estimate from the United Nations Office on Drugs and Crime (UNODC), and it is unclear how the profits of international organized crime were estimated or calculated. Overall, estimates (and the methods by which they have been developed) vary extremely widely, but they nevertheless still give a sense of the enormous scale of global illicit economies.

Beyond challenges around estimating the size of the global illicit economy and studying illicit flows, there are several ongoing debates surrounding the definition of illicit economies,³⁰ in particular in relation to conceptual and definitional complexities in categorising 'legal/illegal' and 'licit/illicit'.³¹ While accepting these complexities, the report defines illicit economies as locally-bound economies³² that depend on the exchange of goods or

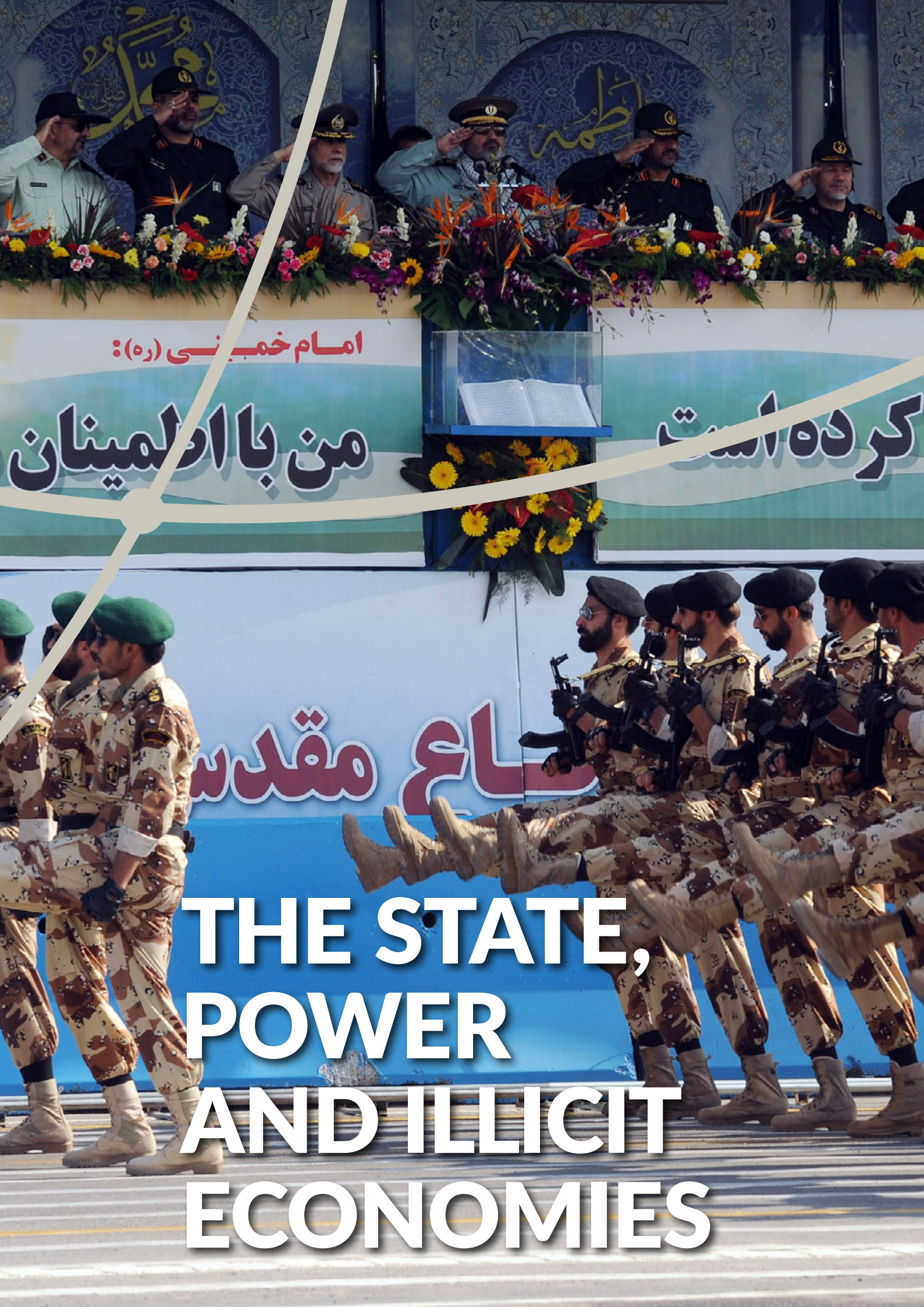
services (or money) whose production, transportation, sale or consumption is officially banned,³³ or where the exchange or transportation of those goods contravene national (e.g. customs duties) and international regulations (e.g. sanctions). The illicit economy is thus created from the proceeds of a range of illicit trades and activities, parts of which are deeply rooted in organized crime,³⁴ and (in the case of Iran) parts of which are perpetrated and accepted by state entities.

Based on this definition, there are two main aspects of the illicit economy. The first is the trade in legal goods that seeks to evade taxes, tariffs and other government regulation. This includes the smuggling of various 'legal' items, e.g. household goods through to fuel and other resources. The second aspect of illicit economies is the trade in explicitly illegal goods and services. This includes (but is not limited to) the illicit drugs trade, human and arms trafficking, money laundering and counterfeiting and the illegal wildlife trade.

These illicit economies produce a range of externalities, or secondary outcomes, which can affect everything from the local context to the political and social order.³⁵ These illicit enterprises are also not hermetically separated from licit global trade.³⁶ Rather, the illicit and licit interact with and shape each other, through a range of financial, political and social channels. In many circumstances, illicit enterprises provide livelihood opportunities for a range of vulnerable and marginalized populations, establishing relative stability, alternative governance mechanisms and new political orders in the absence of the state. As such, what is considered an 'illegal' trade may be seen as highly legitimate by large populations across the globe, for whom there are few other options for livelihoods and income generation.

Iran is a case in point, being a country where strong linkages and synergies exist between the illicit and licit economy. Due to decades of sanctions, Iranians have become reliant on cross-border smugglers for a range of household goods. As shown by Tom Westcott and Afshin Ismaeli in a 2019 report for the GI-TOC, a wealth of legally imported consumer goods sold in Iraqi Kurdistan are smuggled across the border into Iran, where they subsequently end up being sold as licit goods through the network of bazaars and traders across the country.³⁷ Along the illicit supply chain, these goods alternate between being licit and illicit, depending on the stage of the chain. Due to continued strong demand for consumer goods in Iran, and in the context of sanctions, tariffs and other regulatory issues that render formal business dealings with Iran highly complicated or virtually impossible,³⁸ this trade is mediated through networks of importers, smugglers, businesses and end consumers. This underscores the complexity of scoping the size and extent of the illicit economy.

The dangers of conducting social-scientific research on topics of sensitivity in Iran pose great obstacles to developing new knowledge and analysis on these issues.



امام خمینی (ره):

من با اطمینان

کرده است

ساع مقدس

**THE STATE,
POWER
AND ILLICIT
ECONOMIES**



Circular power: the supreme leader and the councils

In seeking to understand the emergence and expansion of illicit economies in Iran, it is important to set out the context in terms of where decision-making power lies in the political and economic system. The constitution of power is of significance to the quality of governance, the rule of law and public faith in the institutions of the state, all of which significantly affect the control of illicit economies. The complex formation of decision-making power in the Iranian state – illustrated by the dual systems of elected and unelected institutions – is a result of the evolution of a circular system of governance over more than four decades. It is also a reflection of deep paranoia, whereby unelected state institutions have been unwilling to give institutions that are guided by even a semblance of ‘democratic representation’ free rein in decision-making. Animosity and distrust are widespread within and between state institutions as well as between the state and the public.

As a result, a circular system of governance has formed. This system has been a key driver of corruption due to the almost total lack of accountability mechanisms for unelected institutions, with *carte blanche* given to the formal and informal entities that are most closely aligned with the centre of power – namely Ayatollah Ali Khamenei, who has held the position of supreme leader since the death of Khomeini in 1989 and who has overseen the reconstruction of the country after the Iran–Iraq war and the emergence and expansion of institutions such as the IRGC.

The most important formal political institutions under the control of the supreme leader are arguably the supreme councils, in particular the Guardian Council, the Expediency Discernment Council (EDC) and the Council of Experts (Figure 2). The Guardian Council

- ◀ Senior military commanders salute troops during a parade commemorating the anniversary of the Iran-Iraq war on 22 September 2011, Tehran. © Kaveh Kazemi/Getty Images



Members of Iran's Assembly of Experts (the clerics who have the power to appoint and dismiss the supreme leader). © Behrouz Mehri/AFP via Getty Images

has 12 members, of whom six are experts in Islamic Law and chosen by the supreme leader, while the remainder are jurists elected by the Majles (the Iranian parliament) from candidates nominated by the head of the Judiciary (who in turn is appointed by the supreme leader). The Guardian Council holds a pivotal role in the Iranian state, being tasked with interpreting the Constitution, supervising elections and accepting (or rejecting) candidates for public office (including those running for the Council of Experts, the presidency and the Majles). For example, in the 2017 presidential elections, out of 1 636 candidates (including 137 women), only six men were permitted to participate after vetting by the Guardians. More recently, the Guardians played a pivotal role in the February 2020 parliamentary elections in which conservative hardliners won a landslide victory (claiming 221 out of 290 seats). The Guardian Council prevented moderates and reformists from fielding candidates in 230 out of the 290 available seats, disqualifying almost 7 300 candidates out of 14 500 in total.³⁹ Moreover, the Guardian Council can veto any parliamentary bill as it screens all legislation passed by parliament to ensure that it is consistent with the Constitution, with particular emphasis on guarding the revolution and its achievements.

In the event that legislation is rejected by the Guardians, the Majles may appeal for the matter to be referred to the EDC, which acts as an arbiter between the Guardians and the Majles and has a final say on vetoed legislation. Members of the EDC are chosen every five years by the supreme leader. But while the EDC was established to resolve internal disputes, in practice the supreme leader has delegated part of his own authority to the council to enable it to supervise all branches of government.⁴⁰ The EDC functions as the Iranian government's 'foremost crisis-management machine',⁴¹ standing at the highest level of legislative power.

THE SUPREME LEADER'S INSTITUTIONS

THE JUDICIARY

- Special court for the clergy

CULTURAL INSTITUTIONS

- The Islamic Republic of Iran Broadcasting
- Keyhan and Ettela'at media institutions
- Political-religious institutions
 - Friday Prayers Policymaking Council
 - Representatives of the Supreme Leader at universities
 - The Islamic Propaganda Organization
 - The Islamic Propaganda Office of the Qom Seminary
 - The Hajj and Pilgrimage Organisation
 - The Center of Supervision on Mosque Affairs
 - The Islamic Culture and Relations Organization
 - Al-Mustafa International University

ECONOMIC INSTITUTIONS

- The Executive Office for Imam's Order
- Astan Quds Razavi
- Foundation of Martyrs and Veteran Affairs
- Foundation of the Oppressed
- The Endowment and Charity Affairs Organization
- The Housing Foundation
- The 15th Khordad Foundation

THE SUPREME LEADER'S REPRESENTATIVES IN THE PROVINCES

- For example, the Friday Prayer leaders

SUPREME COUNCILS

- The Guardian Council
- The Expediency Discernment Council
- The Supreme National Security Council
- The Supreme Council of Cultural Revolution
- The Supreme Council of Virtual cyberspace
- The Supreme Board for Dispute Resolution Among the Three Branches of Government

ARMED FORCES

- Armed Forces General Staff
- The Islamic Revolutionary Guards Corps
- The Artesh
- The Police

FIGURE 2 Key institutions under the supreme leader's control

Finally, the Council of Experts are in theory directly elected by the public, although any candidates for the Council are vetted in advance by the Guardians. As such, any candidates for the Council of Experts are indirectly selected by the supreme leader due to the power and influence he exerts over the Guardians. This perhaps explains why the council is perceived in some quarters as a ceremonial body: despite the fact it nominally has the power to select and dismiss the supreme leader,⁴² it has never ruled against or criticized him.⁴³

The supreme leader also holds constitutional authority over the armed forces, the state-run media, the judiciary, internal security and other key political, economic and cultural institutions.⁴⁴ Ultimately, Khamenei chooses the

people who are supposed to supervise him, and any elected state official who voices dissent can be swiftly prevented from participating in future elections through the power of the Council of Guardians in vetting candidates for public office.⁴⁵ Indeed, since the supreme leader appoints the members of the state's most important institutions, such as the Guardian and Expediency Councils, criticism against any of these institutions is equated with criticism of the supreme leader and the Islamic Republic itself. This circular system of governance not only renders decision-making opaque and complex, but also fundamentally distorts and obscures policymaking and the political process. As stated by journalist Roland Brown, 'if you're confused, that is the whole point'.⁴⁶

Patronage and clientelism

Since its inception, the Islamic Republic has experienced life under two major power structures: the populist reign of Ayatollah Khomeini from 1979 until his death in 1989, and the subsequent clientelist political and economic order under Khamenei. Both structures, however, have struggled with the constant internal tension between the state's desire to maintain its image as a liberator of the oppressed and disinherited, and the need to show decisive and absolute power when faced with internal discord and criticism.

In the wake of a series of challenges to its authority, the survival of the ruling class has become the foremost objective of the state. In the post-war period, Khomeini's position was weakened as he was forced to accept a ceasefire with Iraq. After Khomeini's death, Khamenei struggled to shore up power within the office of the supreme leader as the 1989 constitutional amendments sought to give more power to the presidency and transform the supreme leader into a more symbolic role.⁴⁷ While Khamenei had impeccable revolutionary credentials, serving as the president of the republic between 1981 and 1989, he lacked the religious authority of both Khomeini and other senior clerics.⁴⁸ Faced with internal discord, the Iranian state under Khamenei developed an entrenched patronage network (comprising members of the IRGC, the Basij, veterans and their families, religious institutions and trusts, among others) to guarantee the state's authority, rewarding the network with proceeds from the oil and gas sector. As explained by the sociologist

Kazem Alamdari, 'the power structure of the Islamic Republic of Iran is clientelistic and is composed of many autonomous parallel groups formed in patron-client bonds'.⁴⁹

In their comprehensive work on leadership dynamics and internal political processes in Iran, David E. Thaler et al. studied the linkages between the religious leaders (mullahs), the IRGC and the *bonyads* (parastatal foundations – technically charities – that control a large proportion of the Iranian economy) with the broader political and decision-making systems.⁵⁰ They found that 'the Iranian system is one in which the informal trumps the formal, power and influence derive as much (if not more) from personality as from position, and domestic factional dynamics drive policy debates and policymaking'.⁵¹ This plurality of power centres and complex set of patron-client relationships has created a system wherein unelected leaders hold the key positions in Iran – whether formal, such as in the Guardian and Expediency Councils, or informal ones, such as heads of the *bonyads* and other parastatal organizations.⁵²

The patron-client model even extends to the government's relationship with the people as a whole: in order to appease the domestic populace and working classes, the government has historically used oil rents to subsidize everyday goods such as food, fuel and water.⁵³ Estimates from 2013 – the last year of Mahmoud Ahmadinejad's presidency – showed that annual subsidies accounted for roughly 20% of Iran's GDP, costing the government

between US\$70 billion and US\$100 billion per year at the time.⁵⁴ With the collapse of the Iranian rial (IRR) after US sanctions were re-imposed in 2018 and the ensuing squeeze on state spending, the official government budget (based on the official USD–IRR exchange rate) was estimated at US\$76 billion between March 2019 and March 2020.⁵⁵ In this budget, the state earmarked US\$25 billion for subsidies (33% of the budget), although it remained unclear if other subsidies for imports and poverty reduction were included in this amount (in which case subsidies could account for up to 50% of the state budget).⁵⁶ Fuel subsidies in particular have had a significant impact on catalysing widespread fuel smuggling, whereby a range of actors – from large-scale traffickers connected to the state to regular citizens with modified vans and minibuses – cross the border into neighbouring countries where they sell subsidized Iranian fuel at a higher rate.⁵⁷

State favouritism in subsidy reform

Faced with severe sanctions on the oil and gas economy, in 2010 the government initiated a series of subsidies reforms that reduced energy and food subsidies while at the same time concentrating more economic power in the *bonyads* and IRGC.⁵⁸ As a result, businesses and conglomerates with IRGC connections and access to government capital, infrastructure and revenues from black-market activities were able to weather reductions in subsidies much more easily.⁵⁹

This system of state-sponsored favouritism – in which more economic power is vested in state-controlled and informal patronage networks – has resulted in rampant corruption and

Iranians fill their vehicles at a petrol station in Tehran. In November 2019, massive protests erupted following raised fuel prices, including a reduction in the monthly allocated amount of subsidized fuel. It has been reported that over 1 500 people were killed during these protests. © STR/ AFP via Getty Images



The poor quality of institutions and a relative absence of the rule of law in Iran have been catalysts in channelling skills and human capital into rent-seeking activities in the shadow and illicit economy.

endemic inequality. As stated by Mohsen Rafiqdoost in 2007, the author of the founding statute of the IRGC and a former minister of the IRGC, 'corruption in the bureaucracy, inflation ... are all due to the intervention of the state in all economic matters'.⁶⁰ In an interview for this report, a former head of the Iranian Drug Control Headquarters (DCHQ) explained that 'the problem in our society is inequality. It sets us apart from other countries ... The fact that there is such *parti bazi* [nepotism] and inequality makes our situation unique.'⁶¹ During the interview, he referred to the system established after the revolution, whereby members of certain 'holy' categories (such as children of veterans or of political or religious elites) are automatically given places at the most prestigious universities to study the most coveted degrees. These are the same individuals who are then given the most important and influential positions after university, whereas those who are not lucky to have *parti* (a supporting faction or group) will struggle to find employment. Subsidies and entitlements for individuals in these categories are a key mechanism by which the state retains legitimacy among its supporters.⁶²

Such a system, based on corruption and nepotism rather than merits, has inevitably eroded the administrative efficacy of the state. Iranians have frequently voiced dissent against the state bureaucracy, criticising ineffective and unaccountable institutions, while scholars have shown that the poor quality of institutions and a relative absence of the rule of law in Iran have been catalysts in channelling skills and human capital into rent-seeking activities in the shadow and illicit economy.⁶³

Failure to comply with AML and CFT standards

While internal corruption has remained largely unchecked domestically, the country's role in global money laundering and the financing of designated terrorist groups has received extensive international attention. Foreign government entities, in particular the US Department of State, have consistently argued that Iran has failed to implement international anti-money laundering (AML) and combating the financing of terrorism (CFT) standards.⁶⁴ In October 2007, the Financial Action Task Force (FATF) identified Iran's lack of AML/CFT measures as posing a 'significant vulnerability within the international financial system' and called upon Iran 'to address on an urgent basis its AML/CFT deficiencies'.⁶⁵ In 2010, the UNODC supported Iran to establish a supposedly independent Financial Intelligence Unit (FIU) based at the Ministry of Economic Affairs and Finance,⁶⁶ but the unit's ability to independently investigate state authorities and non-state actors for financial crimes remains questionable.

In June 2016, the FATF announced an Action Plan for Iran to address its strategic AML/CFT deficiencies, and temporarily suspended its counter-measures against the country. In November 2017, President Hassan Rouhani, responding to mounting external pressure, presented four pieces of legislation on AML/CFT to the Majles for Iran to meet the FATF's demands. Supporters of the four bills argued that joining the FATF and international agreements on financial transparency and adopting AML and CFT measures would alleviate the international pressure on Iran's economy.⁶⁷ This would pave the way for Iran to join the UN Convention Against Transnational Organized Crime (UNTOC)

and facilitate trade between Iranian and foreign businesses. (When interviewing foreign diplomats based in Tehran, a senior EU diplomat stated that the lack of CFT legislation was one of the biggest issues facing external banks in allowing the transfer of funds to Iran.)

The bills gained further urgency after the US withdrew from the JCPOA in May 2018, with the remaining signatories demanding that Iran accede to the FATF's plan in order to maintain trade with Iran and salvage the deal.⁶⁸ After one failed attempt at passing legislation in June 2018, there appeared to be progress when the Majles approved four FATF bills later that year, but the Guardians subsequently rejected three.⁶⁹ A senior diplomat from an EU member state in Tehran explained why the FATF legislation was causing such internal tension within the Iranian state:

The shadow state actively benefits from the illicit trade, they use this to fund their operations overseas – in particular to support other 'revolutionary groups', such as

Iranians take part in an anti-Israel demonstration in Tehran to support Palestinian militants and the Lebanese Hezbollah.

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Iranian MPs stage a protest in the parliament over a bill to combat the financing of terrorism. The bill was one of four put forward by the government to meet demands set by the Financial Action Task Force (FATF). © Atta Kenare/AFP via Getty Images

Hezbollah and Hamas. As such, there is serious infighting going on regarding FATF at the moment.

After the bills were rejected by the Guardians, the two most controversial ones – namely the UNTOC and CFT bills⁷⁰ – were sent to the EDC. The EDC stated that a final verdict on the fate of the FATF would be announced in in May 2019.⁷¹ In March 2019, two members of the EDC announced that the supreme leader had given guidance that the approval of the bills would need a two-thirds majority – a highly unlikely event – indicating the supreme leader’s position towards the bills.⁷²

Opponents of the UNTOC and CFT bills argued that they would prevent Iran from extending financial assistance to groups such as Hamas and Hezbollah,⁷³ although the bills passed by the Majles included exceptions for these groups through a clause that states that the Islamic Republic does not recognize groups committed to ‘legitimate defence’ as terrorists.⁷⁴ (The FATF strongly objected to the clause.) The position of these factions was strengthened when the US designated the IRGC as a terrorist group in April 2019.⁷⁵

At its meeting in Paris on 21 June 2019, the FATF reviewed Iran’s commitment to the 2016 Action Plan, noting that several items on the plan had not been completed (see Figure 3).

1	Adequately criminalizing terrorist financing, including by removing the exemption for designated groups 'attempting to end foreign occupation, colonialism and racism'
2	Identifying and freezing terrorist assets in line with the relevant United Nations Security Council resolutions
3	Ensuring an adequate and enforceable customer due diligence regime
4	Clarifying that the submission of STRs [suspicious transaction reports] for attempted TF [terrorism financing]-related transactions are covered under Iran's legal framework
5	Demonstrating how authorities are identifying and sanctioning unlicensed money/value transfer service providers
6	Ratifying and implementing the Palermo and TF Conventions [UNTOC and CFT bills] and clarifying the capability to provide mutual legal assistance
7	Ensuring that financial institutions verify that wire transfers contain complete originator and beneficiary information

FIGURE 3 Incomplete items from FATF Action Plan for Iran⁷⁶

After a further meeting on 18 October 2019, the FATF announced that '[i]f before February 2020, Iran does not enact the Palermo and Terrorist Financing Conventions in line with the FATF Standards, then the FATF will fully lift the suspension of counter-measures and call on its members and urge all jurisdictions to apply effective counter-measures'.⁷⁷

But Iran failed to enact legislation to join the UNTOC or adopt CFT measures by the deadline, following an announcement from the EDC that the internal deadline for endorsing the FATF-related bills had ended and

they should thus be considered as rejected.⁷⁸ On 21 February 2020, the FATF announced that it had voted to re-impose measures on Iran. While the Iranian rial fell after this announcement, the impact of this action will be mostly symbolic as Iran is already largely isolated from the international financial system.⁷⁹ It will however complicate negotiations between the EU and Tehran moving forward regarding a trade channel to circumvent US sanctions, as FATF counter-measures will largely prevent entities from doing business with Iran until FATF Action Plan demands are fulfilled.

The IRGC: the revolutionary elephant in the room

Whereas accusations of state complicity in illicit trade have frequently been levelled at Iran, much of the evidence remains fragmented due to a lack of access to official documents and a state machinery that has a track record of silencing dissidence through mass detentions and forced disappearances. The IRGC has received the brunt of international criticism for its linkages to illicit trades, but it has also come in for domestic criticism due to its corrupt involvement in the formal economy (including in domestic infrastructure projects, the petrochemical and automotive industries and the manufacturing of consumer goods) and in smuggling. Several reports have highlighted concerns around the role of the IRGC in facilitating and being an

active participant in illicit economies, with its dependency on illicit revenue generation increasing from sanctions pressures.⁸⁰ Indeed, evidence suggests that the reimposition of sanctions actually benefits the IRGC as it capitalizes on increased illicit flows. As one expert noted, 'the IRGC and its proxies are enriched by smuggling and enabled by sanctions. The Trump administration seems all too eager to feed this seven-headed dragon.'⁸¹

'It turned into a monster'

Since its creation after the Islamic Revolution, the IRGC has evolved and expanded its reach across all sectors



IRGC Commander Major General Hossein Salami salutes the crowd during a rally in Tehran's Enghelab Square.

© Atta Kenare/AFP via Getty Images

of the economy, creating a conglomerate of businesses operating outside state regulation and evolving into an economic powerhouse.⁸² The entrenchment of the IRGC advanced quickly in the period following the Iran–Iraq war, when the IRGC was given an important role in reconstruction projects and also became involved in the oil and gas sectors. In an interview with *The Guardian*, Mohsen Sazegara, a founding member of the IRGC and now an exiled dissident, described the growth of the organization's influence in Iran:

We created a people's army to defend the country and also help in emergencies, but it turned into a monster. ... Its transformation during the Iran–Iraq war, then the creation of the Quds force, its involvement in financial activities and its role in suppressing reformists has turned it into a country inside a country, a government inside a government and an organization that has no equivalent anywhere in the world. It's like a river that is overflowing, covering everything.⁸³

A number of incidents point to the IRGC's linkages to illicit flows and smuggling. In 2005, reports emerged over the smuggling of goods by the IRGC through Payam Airport, which was controlled by the Guard, using Payam Air (which was owned by the Ministry for Transport). Following a domestic investigation and statements by then-chief of NAJA, Mohammad Baqer Qalibaf, it was reported that Payam Airport serviced four flights per day on regular days, and eight flights per day during holidays, all of which carried smuggled goods.⁸⁴ In the end, only one person was arrested and found guilty for masterminding this operation. This fuelled allegations of a cover-up and state complicity in the illegal import and export of goods.⁸⁵

The IRGC also directly controls large areas of the two main airports in Tehran – Imam Khomeini International Airport and Mehrabad Airport – where customs officials have no access to monitor the flow of goods.⁸⁶ In the mid-2000s, the Guard also pushed Turkish and Austrian contractors out of telecommunications and airport

operational agreements, and placed its preferred domestic candidates in charge instead.⁸⁷ These interventions were not undertaken due to national-security concerns, but rather to protect the IRGC's ability to import and export equipment and goods illicitly.

Critics have argued that this control over domestic logistics networks has been a cornerstone of the IRGC's strategy to generate revenue from smuggling, allowing it to evade the restrictions that apply to other legal business entities in importing or exporting goods. Ultimately, the presence of the IRGC and other similar parastate organizations and military bodies in the Iranian economy has severely undermined the state's capacity to reduce smuggling.⁸⁸ The Iran Customs Administration, for example, seems unable or unwilling to intervene in IRGC activities. The state's capacity to combat smuggling is also hampered by the fact that the IRGC has close ties to enforcement agencies. While the Border Guard Command of the Islamic Republic's Police Force (NAJA) technically controls the country's borders, the IRGC's heavy involvement in border control is open knowledge. (Brigadier General Qassem Rezaei, a former IRGC commander, was the commander of the Border Guard Force until he was replaced in May 2020.)⁸⁹ As reported by Iranian news agencies, the IRGC and Iranian Border Guard continue to collaborate extensively in border-control operations.⁹⁰

The IRGC's use of 'invisible jetties' (referring to a network of clandestine piers in various locations around the Gulf) has also been cited as an area of major concern, with the jetties widely recognized as a key mechanism by which the IRGC facilitates the smuggling of large quantities of goods and resources, such as fuel.⁹¹ In 2006, Mehdi Karroubi, the Speaker of the 6th Majles under reformist President Mohammad Khatami, indirectly accused the IRGC of running 60 illegal jetties without government supervision, enabling potentially thousands of tonnes of goods to be illegally imported and exported.⁹² (Karroubi has been under house arrest since 2011, partly due to his open criticism of the supreme leader's institutions). At the time, Karroubi's aid, Mohammed Ali Moshaffeq, estimated that 60% of Iran's illegal foreign imports entered through these jetties.⁹³ During the ensuing wave of criticism, members of the Majles stated that the IRGC's black-market activities might account for up to US\$12 billion per year in 2009.⁹⁴ In 2007, MP Ali Ghanbari stated that:

One third of the imported goods are delivered through the black market, underground economy and illegal jetties. Appointed institutions [by Supreme Leader Khamenei] that don't obey the [rules of] the government and have control over the means of power; institutions that are mainly military, are responsible.⁹⁵

A 2009 study on the IRGC published by the RAND Corporation highlighted the Martyr Rajai Port Complex in Hormuzgan as a particular point of interest, with the port reportedly used to illegally export large amounts of state-subsidized gasoline to countries in the region and beyond.⁹⁶

Constitutionally mandated corruption?

Support of the involvement of the IRGC in the Iranian economy has been linked to its constitutional mandate⁹⁷ and articles 147 and 150 of the Constitution in particular, which respectively stipulate that the government must utilize the personnel and technical equipment of the Army in relief operations and for educational and productive ends in peacetime; and use the Army to guard the Islamic Revolution and its achievements.

These articles have been interpreted broadly by the leaders of the IRGC and their allies. Bolstered by a 2003 Ministry of Defence directive that the IRGC and its affiliates would act as contractors in development schemes and projects, the Guard now refuses to accept any constitutional or legal restrictions on its operational freedom.⁹⁸ Due to the close linkages between the IRGC and the supreme leader, in effect the Guard may involve itself in any part of the economy as long as Khamenei supports it. While corruption in other government agencies and officials is systemic,⁹⁹ the IRGC has the overarching right to supersede other state entities in generating illicit funds and taking an active part in the licit economy.

The relationship between the IRGC and the Khatam al-Anbiya Construction Headquarters (GHORB) conglomerate illustrates the power that the IRGC wields in the construction industry, just one of many sectors in which it has an interest. GHORB was originally founded as the construction and engineering branch of the IRGC in the aftermath of the Iran-Iraq war to help support the post-war reconstruction of the Iranian state,¹⁰⁰ but over time has evolved to become a key component in the

It is widely believed that the IRGC will continue to operate with impunity, given that there is no one powerful enough to hold them to account, perhaps not even Khamenei.

IRGC's efforts to consolidate control over the Iranian economy. It is now one of the largest contractors in Iran, being the parent of 812 affiliate companies as of 2010 and having secured thousands of infrastructural projects from the government.¹⁰¹ (Among other dubious aspects, the finances of GHORB are audited by a firm owned by the organization itself.¹⁰²) The head of GHORB has historically been the IRGC's commander-in-chief, and its CEO has always been a high-ranking IRGC officer. In 2006, the deputy head of GHORB, Brigadier General Abdol Reza Abed, confirmed in an interview that the organization helped finance national-defence projects, including the training and arming of Hezbollah.¹⁰³ In an annex to UN Security Council Resolution 1929 (9 June 2010), GHORB was listed as an entity of the IRGC that was involved in construction projects for Iran's ballistic-missile and nuclear programmes.¹⁰⁴

Although the IRGC operates with apparent impunity, it nevertheless takes pains to disguise its workings and maintain an aura of secrecy. An engineer within the IRGC interviewed for this report stated that employees are frequently given bank cards with fake names to spend at certain businesses and launder money. Working in one of the weapons-development branches of the Guard, he gave some insight into his working situation:

People I work with are very secretive, I do not even know if their names are real. Those in the higher tiers of the organization are suddenly absent for prolonged periods of time – they all use old mobile telephones, no smart phones, to complicate tracking them.... They [the IRGC] build fake profiles of people, and then establish businesses in their names – to ensure that there is no way of finding links between the Sepah [IRGC] and those businesses. We do this all the time.

In recent years, criticism by officials has mounted against the IRGC's involvement in the Iranian economy. President Rouhani has been relatively outspoken about the IRGC's business activities, stating in 2017 that '[a] part of the economy was controlled by an unarmed government and we delegated it to an armed government. This is not [a sound] economy or privatization.'¹⁰⁵ However, it is widely believed that the IRGC will continue to operate with impunity, given that there is no one powerful enough to hold them to account, perhaps not even Khamenei. Moreover, following recent events such as the repression of fuel protests in November 2019 and the Guard's strengthened control over Iran's economic and political system following renewed US sanctions in 2018, there are deep worries about the IRGC's power after Khamenei,¹⁰⁶ with signs that Iran is already moving towards a military bureaucracy.¹⁰⁷ There is often talk about a potential IRGC coup, but perhaps a more likely scenario is that the Guard will push for a weak leader whom it can control, allowing it to continue operating the levers of political and economic power behind the scenes rather than overtly.

Supporting foreign entities: the Quds Force

IRGC activities in the shadow and illicit economy are not only intended to generate revenue and consolidate influence over the economy, but also to further the strategic aims of Iran. A 2018 report by the US State Department argued that:

The Iranian regime relies on opaque and fraudulent financing activities to fund its proxies and support its proliferation of ballistic missiles and other weapons. In the last year, the IRGC-QF [Islamic Revolutionary Guard Corps-Quds Force] has been



Iranian Quds Force Commander Qassem Soleimani (centre) attends a meeting with Supreme Leader Ayatollah Khamenei in Tehran. Soleimani was assassinated in a US operation in Iraq on 3 January 2020. © Press Office of Iranian Supreme Leader/Anadolu Agency via Getty Images

exposed for using front companies to move funds, procure restricted materials and technologies, exploit currency exchange networks in neighboring countries, and produce counterfeit currency.¹⁰⁸

Since 2012, it has been estimated that the Iranian government has spent more than US\$16 billion supporting the Assad regime in Syria and other partners and proxies in Syria, Iraq and Yemen.¹⁰⁹ It is widely argued that the IRGC's Quds Force (the Guard's extraterritorial branch responsible for supporting regional partners and carrying out international activities) engages in large-scale illicit financing schemes and smuggling to fund its operations.¹¹⁰ The Quds Force employs shell companies and other ostensibly legitimate entities to facilitate illicit transactions to their allies, some of which have been designated as terrorist groups, such as Hezbollah and Hamas. According to the US government, Iran provides Lebanese Hezbollah with around US\$700 million in support each year.¹¹¹

Iranian government entities have been identified on several occasions as providing support for the Quds Force's financing of armed groups. In May 2018, the US Treasury Department revealed how Quds Force funding to Hezbollah had been facilitated through the Central

Bank of Iran (CBI), enabled by its former governor Valiollah Seif, and the Al-Bilad Islamic Bank in Iraq, with the knowledge of Aras Habib, the chairman and CEO of the bank.¹¹² The Al-Bilad Islamic Bank subsequently transferred the money to Hezbollah representative Muhammad Qasir in Lebanon.

In addition to IRGC and the Quds Force's support of Hezbollah and other armed groups through smuggling arms¹¹³ and its increasing role in Latin America (particularly Venezuela) in smuggling goods and fuel¹¹⁴ – including widespread allegations of supporting drug-smuggling networks in the region (partly via supporting Hezbollah activities)¹¹⁵ – there are many lesser-known illicit revenue-generating methods that the Guard involves itself in. Among others, the Quds Force has been found to operate a network of front companies in order to exploit the currency-exchange market in the UAE, procuring and transferring hundreds of millions of US dollars.¹¹⁶ Moreover, in 2017 the Quds Force was involved in an operation to produce counterfeit Yemeni bank notes to support Iranian activities in Yemen, purchasing advanced printing machinery and other equipment from Germany through a network of front companies.¹¹⁷



US President Donald Trump signs new 'hard-hitting sanctions' on Iran's supreme leader Ayatollah Khamenei and other Iranian officials on 24 June 2019. © Mandel Ngan/AFP via Getty Images

The art of sanctions evasion

The Iranian state's experience with sanctions began soon after the revolution, when in 1979 Iranian students stormed the US Embassy in Tehran and took diplomatic personnel hostage. In response, the US banned Iranian imports, froze US\$12 billion in Iranian assets and enacted the first set of sanctions on the fledgling Islamic Republic.¹¹⁸

Over the next four decades, sanctions pressure increased, particularly as the West grew increasingly anxious about Iran's nascent nuclear programme. In 2012, the EU and the US imposed targeted energy and financial sanctions, with the US Energy Information Agency reporting that average daily oil production in Iran dropped almost 17% in 2012 and 9% in 2013.¹¹⁹ The total decrease in exports of petroleum products was 32% in 2012 and 25% in 2013, with a drop in state revenue from petroleum products from US\$114 billion in 2011 to US\$61 billion in 2013.¹²⁰

Overall, the sanctions imposed on Iran's energy and financial sectors in 2012 and 2013 had a significant negative effect on the official economic growth rate, with GDP per capita contracting by 8.6% in 2012 and 1.4% in 2013.¹²¹ The EU ban on the import, purchase and transport of Iranian crude oil in July 2012 had a particularly large impact, given that before the ban the EU purchased an estimated 20% of all Iranian oil exports. There was a temporary respite from sanctions when the JCPOA was formally adopted by the P5+1 (China, France, Russia, the UK and the US, plus Germany) in 2015, after which a period of rapprochement and détente followed.¹²² However, in 2018 President Trump announced the United States' unilateral withdrawal from the nuclear deal and reimposed US sanctions, throwing the Iranian economy into turmoil once again.

But US sanctions and Trump's policy of 'maximum pressure' have failed to bring about their goal of total economic collapse in Iran. According to Djavad Salehi-Isfahani, this is due to

'a misunderstanding of the level of complexity of Iran's economy and ... how experienced they are with resisting sanctions'.¹²³ Although the Iranian economy is faltering – reflected in widespread unemployment, high inflation rates and a lack of foreign exchange – four decades of sanctions have forced Iranian policymakers to diversify from oil reliance. This has resulted in a large-scale domestic manufacturing industry and close ties with regional partners and neighbouring countries for official and unofficial trade, while state and well-connected traders have been able to keep the economy running through illicit and informal trade networks. Shortages of goods have also spurred domestic manufacturing, creating employment for Iranians. After the reimposition of US sanctions, Foreign Minister Mohammad Javad Zarif stated that he was confident that Iran would be able to cope: 'We have successfully done business during previous sanctions,' he said. 'If there is an art that we have perfected in Iran ... it is the art of evading sanctions.'¹²⁴

However, while the political and economic elite may have developed techniques by which to resist the full impact of sanctions, the most marginalised and vulnerable Iranians have historically and contemporarily been disproportionately affected by them, with rapidly rising inequality, unemployment, negative health outcomes and poverty rates.¹²⁵ For most Iranians, the structural deficits in the economy caused by sanctions and the country's high dependence on oil rents has led to a situation whereby 'the Iranian government is unable to create productive job opportunities for the country's large young and educated population'.¹²⁶ For these people, evading sanctions – and engaging in illicit economies – may be more a necessity than an art.

Sanctions evasion through a national cryptocurrency

One of the sanctions-evading measures in development by the Iranian government is a national cryptocurrency, which is intended to become a 'sanctions breaker', similar to the Venezuelan 'Petro'.¹²⁷ In October 2018, the head of the Civil Defense Organization of Iran allegedly stated that 'cryptocurrencies can help bypass certain sanctions through untraceable banking operations'.¹²⁸

In response, US policymakers introduced the Blocking Iranian Illicit Finance Act in December 2018. The measure seeks to impose targeted sanctions on Iran's efforts to develop its own national cryptocurrency and to counter Iranian government complicity in money laundering and the financing of terrorism.¹²⁹ This would be achieved through a series of measures, among others blocking the CBI's access to the SWIFT network.

On 29 January 2019, the CBI released an early draft of regulations on cryptocurrencies, including the sovereign cryptocurrency of Iran, while the Ministry of Industries,

Mining and Trade began issuing cryptocurrency-mining licenses, handing out more than 1 000 such licenses by January 2020.¹³⁰ It has been reported by the Iran Association of Blockchain that bitcoin transactions worth US\$10 million are already conducted in the country daily.¹³¹ However, fears have been raised that the Iranian move towards cryptocurrency could be used to facilitate its support for designated terrorist groups in the region. A spokesperson for Hamas's al-Qassam Brigades stated on 30 January 2019 that financial aid to the group should be sent through bitcoin, with the exact mechanism for completing transactions to be announced at a later stage.¹³²

In May 2019, President Rouhani and Iranian legislators called for a renewed national approach for the cryptocurrency industry, although several regulatory issues remain and at the time of writing the national cryptocurrency was seemingly nowhere near launch.¹³³



Smugglers carry vehicle parts across the mountainous border terrain. © Noorullah Shirzada/ AFP via Getty Images

Smuggling

In effect, since its inception in 1979, the Iranian state has been reliant on smuggling to secure the procurement of a range of equipment and machinery needed for domestic industries and infrastructure development, as well as consumer goods and everyday household items. Fuel smuggling has also enabled the state to generate revenue when faced with stringent oil and gas sanctions, as in 2013, when it was estimated that 90% of export smuggling in Iran involved oil-related products.¹³⁴ In 2014, according to officials from Iran's Central Headquarters for Combating the Smuggling of Commodities and Currency, petroleum products worth US\$7 billion were smuggled out of the country.¹³⁵ This included the daily smuggling of 125 000 barrels of oil.

In his research on smuggling in Iran, Farzanegan estimates that the average annual value of smuggled goods between 1988 and 2002 was between US\$2.5 and US\$3 billion.¹³⁶ The highest estimated value of smuggled goods – approximately \$4 billion – occurred in 1991 and 1992, corresponding to the record-high black-market currency premium (BMP) of 2 000% at the time. Overall, smuggling comprised an estimated 13% of all trade in Iran between 1988 and 2002.¹³⁷ And while government estimates are heavily disputed, in 2015 Iran's Customs Administration and the Majles estimated the value of smuggled imported goods at between US\$20 billion and US\$30 billion.¹³⁸

President Rouhani has on several occasions acknowledged the problem of smuggling, stating that his government has reduced the total value of the illicit trade from US\$22 billion in 2013 (the beginning of his term) to US\$12.5 billion by 2018.¹³⁹ It is unclear how these numbers have been calculated, however, and Rouhani's claim runs

counter to evidence showing increased smuggling over the past few years (particularly since the US withdrawal from the JCPOA). Overall, smuggling is facilitated by the widespread corruption in the Iranian state,¹⁴⁰ which has significantly worsened in Iran since over the past decades.¹⁴¹ In conjunction with the state's worsening performance in governance, IRGC-controlled businesses and well-connected traders have exploited corrupt governance systems and the absence of rule of law to facilitate illegal activities.

Marginalized communities and the unemployed

As well as providing a means for the Iranian state to evade sanctions, smuggling also provides a livelihood for many impoverished and marginalized communities, as well as opportunities for enrichment among criminal networks. For these groups, the rationale for smuggling can be divided into two main categories: to avoid taxation, duties and other impeding regulation; or to evade state interdiction due to the illegality of the commodity being smuggled (such as alcohol, drugs and arms).

But such motives sometimes combine. Along the Iranian borderlands, marginalized ethnic minorities such as Kurds and Baluch have become heavily involved in the cross-border trade and smuggling of both legal and illegal commodities. The involvement of these communities in illicit markets has been exacerbated by protracted poverty, insecurity and the absence of other sustainable livelihoods.¹⁴² As stated by Westcott and Ismaeli, the 'smuggling economy is deeply embedded in the social, economic and political realities of the border region between Iran and Iraqi Kurdistan'.¹⁴³ For example, Kurdish-Iraqi couriers may enter Iran with consumer goods and return with drugs.

Interviews with key informants have highlighted that there is seemingly renewed heroin processing along Iran's western border with Iraq and Turkey for onward export to Europe/Middle East and potentially Russia. The smuggling channel between Iraqi Kurdistan and western Iran could be used for trafficking the precursors needed for heroin production into Iran more easily than into Afghanistan. Moving heroin production closer to European borders would also make it easier for drug-trafficking groups to move drugs into lucrative Western consumer markets, as massive quantities are

seized along Iran's eastern border each year. Further research is needed on this issue.

Elsewhere, sanctions on the Iranian economy has contributed to pushing people out of formal jobs and the licit market and towards finding employment in informal markets and illicit trades, such as the smuggling of commodities. The dynamic relationship between unemployment and smuggling can be explained by evaluating whether an 'income effect' or 'substitution effect' is dominant.¹⁴⁴ If the income effect is dominant, then increasing unemployment leads to lower demand for both legal and illegal products, since the purchasing power of the consumer is lowered. If the substitution effect is dominant, then the income effect will be offset by larger numbers of individuals seeking employment and income generation through the informal and illicit economy. Based on the research conducted for this report and interviews with key informants, it seems as if the substitution effect is dominant in Iran as individuals, faced with continuously rising prices and unemployment, are increasingly seeking employment in informal or illicit economies. The substitution effect may be strengthened by Iran's status as a key transshipment country for illicit drugs, wherein the illegal transit trade is not necessarily dependent upon domestic demand (although a large amount of drugs that enter Iran remain for domestic consumption) but takes place due to Iran's strategic location as a bridge to lucrative consumer markets in the West.

Overall, sanctions and trade embargoes on Iran have been shown to have a significant expansionary effect on the scale and value of smuggling in Iran, including on the illicit smuggling activities of the IRGC.¹⁴⁵ Meanwhile, it is likely that increasingly large numbers of people will become reliant on informal and illicit income-generating activities, should pressures remain the same and unless the Iranian currency is strengthened.

Black-market premiums

A major mechanism through which illegal commerce and smuggling is mediated is the manipulation by state and non-state actors of the currency trade. The official exchange rate of foreign currencies to the IRR is determined by the CBI, which has historically drastically overvalued the IRR in relation to other currencies, such as the US dollar, euro and pound sterling, leading



Iranian speedboats loaded with smuggled goods cruise through the Strait of Hormuz, near Oman's Khasab port. At least three times a day, Iranian smugglers risk life and limb to carry banned and highly taxed commercial goods on tiny boats from the Omani enclave across the narrow waterway to Iran for sale on the black market. © Karim Sahib/AFP via Getty Images

to a low exchange rate. This official exchange rate is set to help Iranian businesses and institutions to trade with the rest of the world by lending foreign currency at a heavily subsidized rate. This rate is also usually drastically lower than the black market or free-market rate. According to official data from the CBI released in 2008, the black-market rate for the US dollar reached a peak in 1992 at 22 times the official rate.¹⁴⁶ (This coincided with the highest recorded value for smuggled goods between 1988-2002, estimated at US\$4 billion.)¹⁴⁷ Since then, various reforms have narrowed the disparity between the official and black-market exchange rate, although it remains substantial as of 2020. In September 2012, the Iranian government and CBI announced the adoption of a new three-tiered exchange-rate regime (see Figure 4) in response to sanctions and the renewed volatility of the rial.¹⁴⁸

The disparity between the official exchange rate and black-market rate has created perverse incentives for those who have access to these preferential rates, such as IRGC-controlled businesses and conglomerates and well-connected traders. By over-invoicing their imports (through forging invoices and other necessary documents), these actors are able to access surplus foreign currency at a lower rate (as low as IRR 42 000 to US\$1), which is then sold on the black market (where rates as of July 2020 were around IRR 255 000 to US\$1, roughly six times higher). To illustrate, if a trader over-invoices imports by US\$100 000, they would pay the Central Bank IRR 4.2 billion for this extra currency. This additional currency could be retained or sold on the black market for at least IRR 25.5 billion, making a net profit of IRR 21.3 billion (or roughly US\$83 500). Thus, this system greatly favours those traders and businesses that are well-connected to the official banking system, including paramilitary business conglomerates and organizations (such as GHORB and its subsidiaries).

The discrepancies in foreign exchange rates have created significant incentives to over-invoice imports and under-invoice exports, for easy and immediate profits. This form of

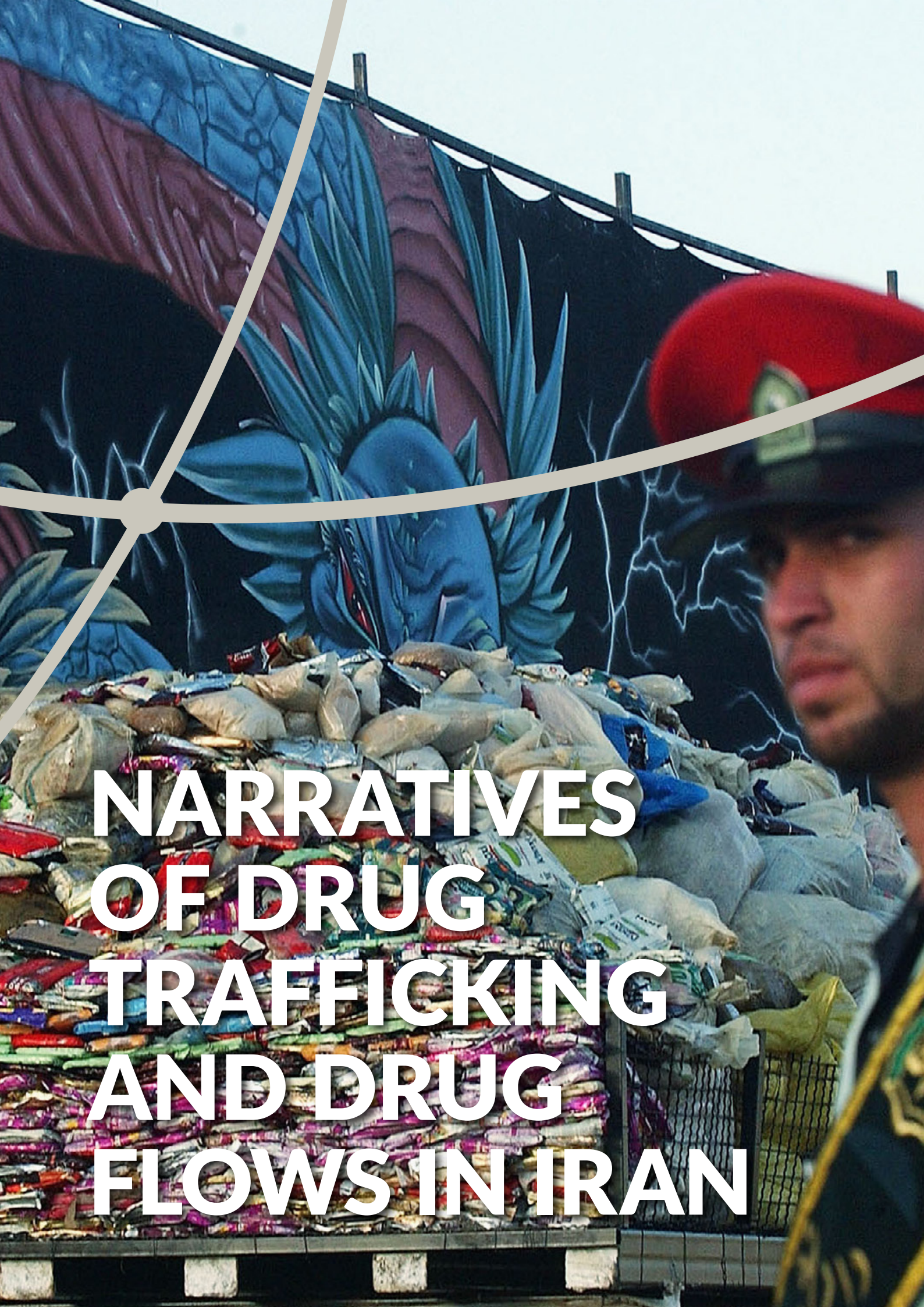


illicit currency trading has established strong linkages between transactions in the formal and informal markets (as currency flows between the official banking system and informal or black-market traders), underlining the interdependencies between the formal and informal or illicit economies. The existence of a significant black-market premium (BMP) on foreign exchange in Iran has historically been one of the main drivers of rent-seeking, corruption, informal economy growth, smuggling and fraud in trade documents.¹⁴⁹ As such, with the collapse of the IRR since 2018, the escalating BMP of foreign currency is likely to lead to increased manipulation of foreign exchange, and further enrichment of the corrupt elements and businesses within the Iranian state, at the expense of the broader economy and the Iranian people.

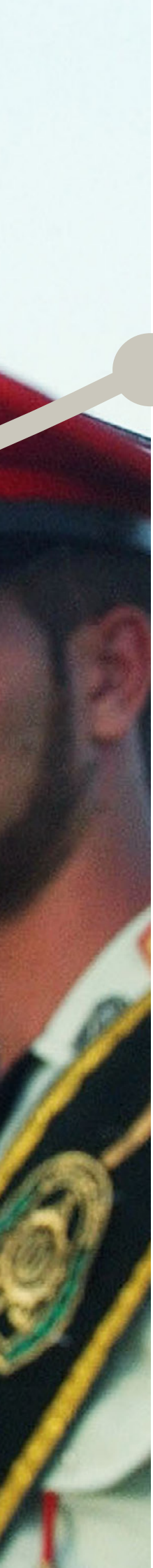
In light of recent domestic criticism of the state's management of the economy, and the vast number of financial crimes going unsolved, a set of special courts focused on financial crimes was established in August 2018, approved by the supreme leader.¹⁵⁰ This move sought to appease critics and show that the government is ready to punish those who exploit the current economic situation for private gain.¹⁵¹ This includes the traders who profit from currency manipulation and US dollars smuggled from Afghanistan into Iranian border towns, where they are sold for Iranian rials that are smuggled back into Afghanistan and traded at a higher rate.¹⁵² These new courts have allegedly handed out at least seven death sentences since they were established, with some of the trials having been broadcast live on television.

Official exchange rate	The most subsidized rate for US\$. Used to import necessary and critical goods in Category 1 (basic foodstuffs such as meat, soybeans, oil, raw sugar, etc.).
Non-reference rate	Officially 2% lower than the free market rate, although in reality it is much lower than that. Used to import goods in categories 2–9 (including medicine, livestock, seeds, rubber and some white goods).
Free (black-market) rate	For imports in Category 10 (such as cars, mobile phones, furniture). Importers of such goods must purchase foreign exchange from licensed dealers only.

FIGURE 4 Three-tiered Central Bank of Iran exchange-rate regime (2012)¹⁵³



NARRATIVES OF DRUG TRAFFICKING AND DRUG FLOWS IN IRAN



Due to the areas and key informants accessed for this report, this section focuses mainly on narratives of drug trafficking and drug flows over Iran's eastern border with Afghanistan and Pakistan. But while this report's focus is mainly on the eastern border, it is important to acknowledge the drug-trafficking organizations and organized-crime groups that operate along the western border with Iraqi Kurdistan which enable the onward trafficking of, for example, Afghan opiates through the Balkan route. These groups also help supply Iran with smuggled consumer goods from Turkey and Iraq that end up in the bazaars of Tabriz, Tehran and other major cities. Overall, further research is required on the western border area, but for an excellent overview, see Westcott and Ismaeli's report.¹⁵⁴

Drugs in Iran: From traditional use to the hangman's noose

Psychoactive drugs have a long history of being cultivated and used in Iran, and opium in particular has a deeply embedded sociocultural role in Iranian society. Over several centuries, opium was consumed to treat a range of ailments as well as being used in cultural rituals and for relaxation and pleasure, as recorded and romanticized by many famous Iranian poets and artists.¹⁵⁵ Since the Safavid dynasty came to power at the beginning of the sixteenth century, official government policy on opium use has oscillated between tacit approval and outright prohibition.¹⁵⁶ Before the Islamic Revolution, the Iranian government experimented with formalized systems for opium regulation, for both cultivation and consumption. From the early twentieth century until the revolution (albeit with periods of interruption), the state implemented a voucher system for registered opium users, allowing individuals over a certain age to legally buy and consume government-certified opium. This system operated in tandem with a legally regulated industry for opium-poppy cultivation and production that catered for domestic and international demand.¹⁵⁷ Taxation of the opium trade became a cornerstone of the Iranian economy in the early to mid-twentieth century, and a key reason for Iran's resistance to measures to reduce

◀ An Iranian soldier watches over 50 tonnes of narcotics, mostly heroin, due to be incinerated at an anti-drug ceremony in Tehran. © Scott Peterson/ Getty Images

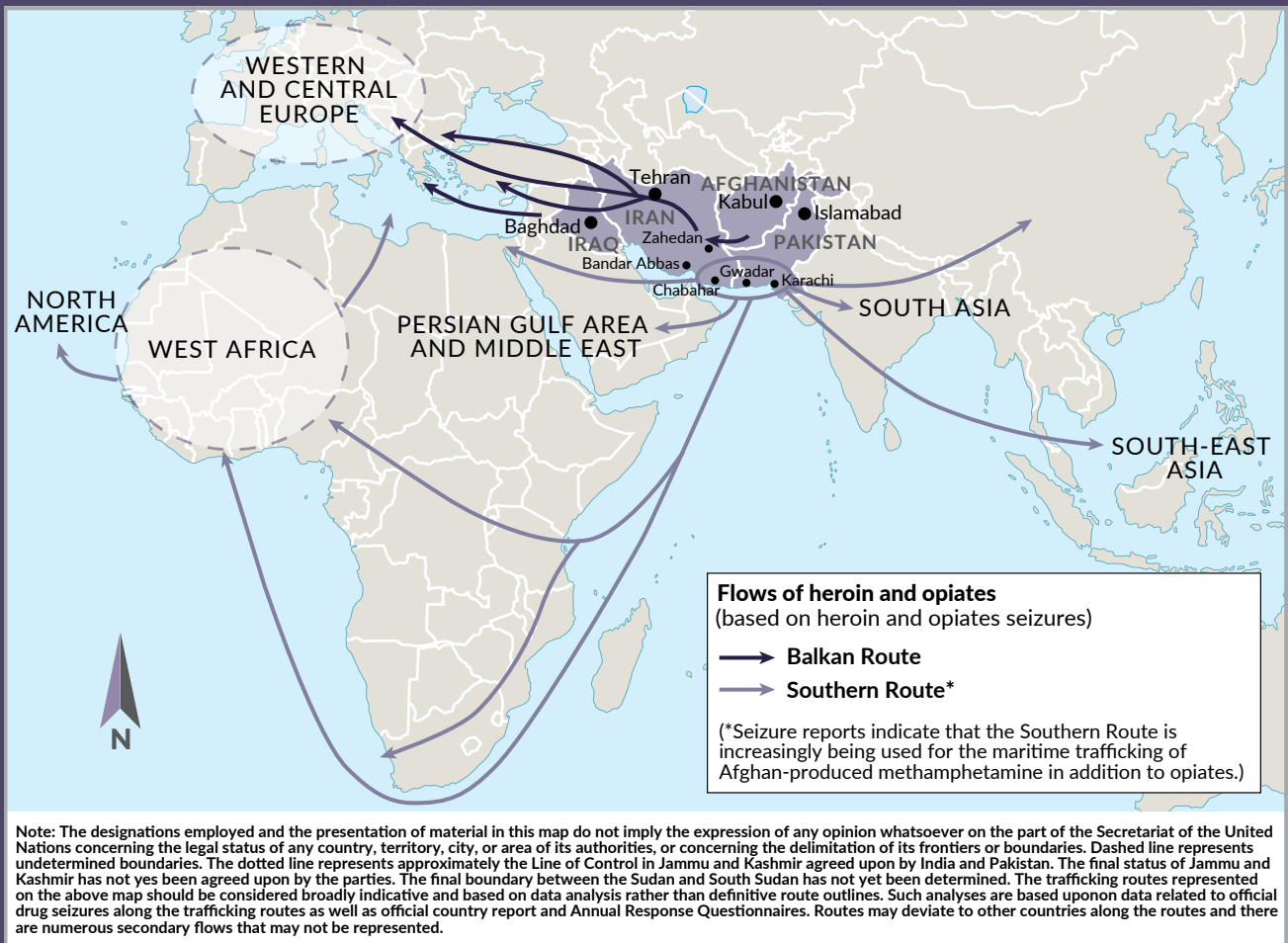


FIGURE 5 Opiate trafficking through the Balkan and Southern routes.

SOURCE: Afghan opiate trafficking through the Southern Route, UNODC, 2015.

domestic production and the international trade in opium following the 1909 Opium Commission in Shanghai and the 1912 Hague Opium Convention.¹⁵⁸

The Islamic Revolution of 1979 marked a turning point for Iranian drug policy.¹⁵⁹ With it, the voucher system was quickly abandoned and drug-treatment clinics were disbanded. In the immediate aftermath of the revolution, at least 582 alleged drug dealers were sentenced to death and executed during Sadeq Khalkhali's infamous reign as chief justice of the Islamic Revolutionary Courts and head of the Anti-Drugs Revolutionary Council.¹⁶⁰ Since then, a range of experts have argued that four decades of draconian laws have severely worsened the domestic situation in regard to drugs, leading to the mass incarceration of drug-involved individuals, fuelling corruption and violence and undermining governance.¹⁶¹

Drug supply chains

Iran is a key transit point for two of the most significant global drug routes: the Balkan and Southern routes.¹⁶² In 2009, the US State Department estimated that approximately 40% of the opium produced in Afghanistan enters or transits Iran for domestic use or consumption in Europe and, to a lesser extent, in Russia.¹⁶³

More recent data shows that the Balkan route remains the most important heroin (and most likely opium) trafficking route globally.¹⁶⁴ Through this route, heroin and opium produced in Afghanistan is trafficked through Iran, Turkey and the Balkan states to



consumer markets in Europe. According to the UNODC, seizures made by countries along the Balkan route accounted for 47% of global seizures of heroin and morphine outside Afghanistan in 2017.¹⁶⁵ Overall, since 2002 Iran and Pakistan have consistently accounted for more than 90% of global opium seizures.¹⁶⁶ According to the UNODC's 2020 World Drug Report, Iran alone accounted for 33.1% of global heroin and morphine seizures and 91.5% of global opium seizures in 2018.¹⁶⁷ Heroin seizures have been steadily increasing in Iran in recent years, from 10.18 tonnes in 2012 (having dropped by more than 50% from the previous year) up to over 25 tonnes in 2018,¹⁶⁸ commensurate with burgeoning production in Afghanistan. In total, Iran seized 690 metric tonnes of illicit opiates in 2018 – almost nine times more than Afghanistan and Pakistan combined (see Figure 7).

FIGURE 6 Drug smuggling through Iran. The red shading shows formal and informal hotspots for drug smuggling.

Country	Heroin and morphine seizures (metric tonnes) (share of global total in %)	Opium seizures (metric tonnes) (share of global total in %)	Total opiates (metric tonnes) (share of global total in %)
Afghanistan	23.1 (16.6%)	27 (3.8%)	50.1 (5.9%)
Iran	46 (33.1%)	644 (91.5%)	690 (81.8%)
Pakistan	9.7 (7%)	19 (2.7%)	28.7 (3.4%)

FIGURE 7 Seizures of opiates in 2018¹⁶⁹

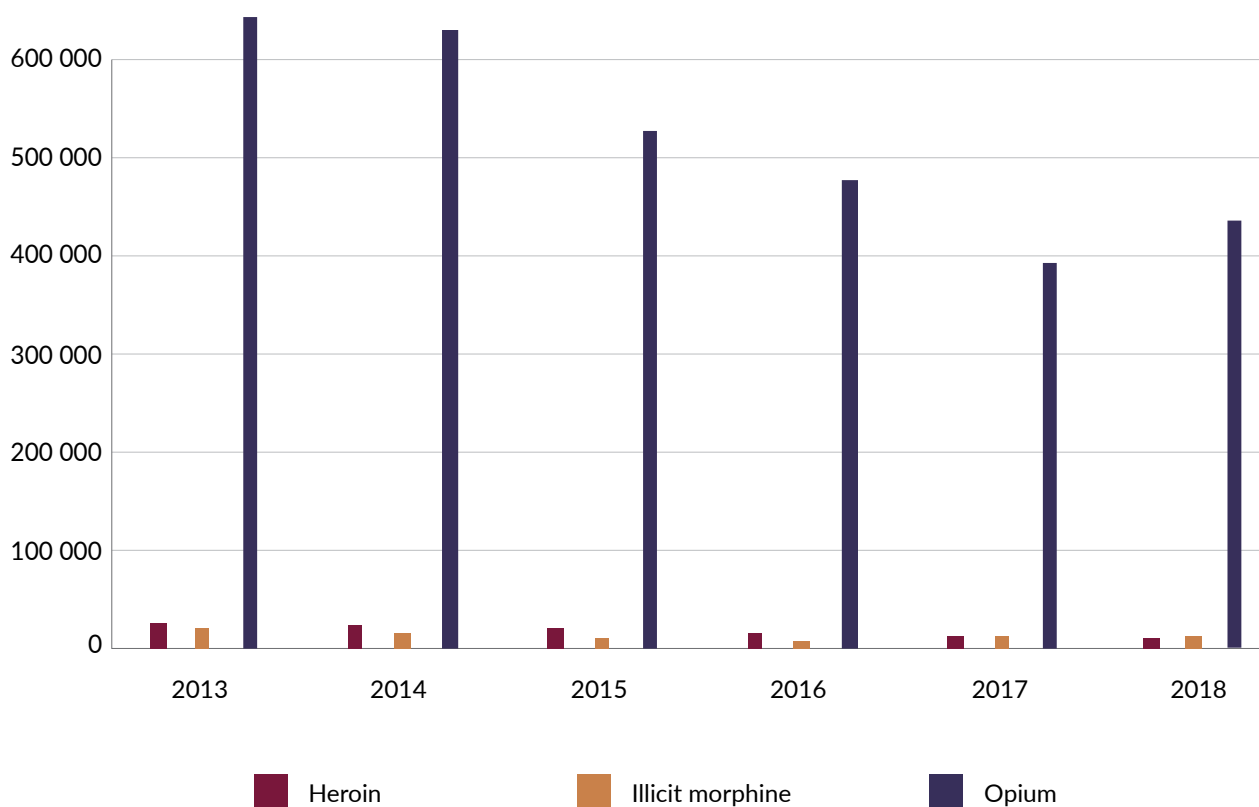


FIGURE 8 Seizures of heroin, morphine and opium, 2013–2018.

Iran shares borders with both Afghanistan and Pakistan in the east (measuring 921 kilometres and 959 kilometres respectively), providing numerous entry points for illicit drugs. This has rendered border enforcement a complex challenge in volatile borderlands.¹⁷⁰ As reported by the DCHQ in 2015, the Iranian state has invested considerable resources in enhancing border-enforcement capacity in the east, with a reported 17-fold increase in the ‘border-blocking budget’ in the years prior (although exact figures are not available).¹⁷¹ To bolster border enforcement, Iran has excavated 717 kilometres of canals, constructed 862 kilometres of embankments and erected 132 kilometres of fences and barbed wire. Details of border enhancements along Iran’s western border are much scarcer, as the predominant focus is on the east in both official narratives and data released from the Iranian government and DCHQ. Whether this is a conscious strategy of redirecting attention towards Afghanistan while letting goods be smuggled across the western border requires further research. One possible explanation is that Iran is seeking to reduce the amount of drugs entering the country from Afghanistan in order to control domestic consumption and crack down on the Baluch ethnic minority (who are heavily involved in cross-border trafficking in the east), but are less concerned about trafficking out of Iran through the western border, as that generates funds for groups active in the country, potentially including state entities involved in drug trafficking.

Over the past three decades, officials have stated that more than 3 700 Iranian law-enforcement officials have been killed and 12 000 have been injured in skirmishes with drug traffickers, most of which have been concentrated in the eastern border provinces of Razavi Khorasan, South Khorasan and Sistan and Baluchistan.¹⁷² Whereas the numbers of civilians, police and traffickers killed have not been made public in a



systematic way, figures published by the DCHQ claim that 109 traffickers were killed in 2014 (compared to 111 in 2013) in 2 160 border operations and clashes.¹⁷³

In Sistan and Baluchistan – the poorest Iranian province which borders both Pakistan and Afghanistan – a number of Sunni militant groups have been involved in the smuggling of a range of goods and resources, such as fuel and controlled substances, for several decades.¹⁷⁴ A strong state presence, including regular IRGC activities in the province, has sought to quell dissent through decisive shows of force since the end of the Iraq war.¹⁷⁵ In response, militant groups such as Jundullah (Soldiers of God) have carried out a number of terrorist attacks in these borderlands, and continue to do so. (On 29 January 2019, several officers were injured in a bomb attack on an Iranian police station.)¹⁷⁶

Drug use in Iran

The presence of these drug-trafficking chains has had major consequences for drug use in Iran. Although estimates of drug use and substance dependence in Iran are wide-ranging, since 2011 UNODC have claimed (based on official DCHQ data) that Iran has the second-highest prevalence rate globally of adults suffering from opiate dependence, surpassed only by Afghanistan.¹⁷⁷ The main drugs of consumption in Iran are opium, cannabis, heroin and methamphetamine.¹⁷⁸ Methamphetamine and cannabis have generally been produced inside Iran (although recent research shows that methamphetamine production may be shifting to Afghanistan),¹⁷⁹ whereas

Former UNODC Executive Director, Yury Fedotov, and Iranian anti-narcotics Police Chief Hamidreza Housein Abadi view seized Afghan-made morphine during a media tour in the Iranian city of Zahedan, 2011. © Atta Kenare/AFP via Getty Images



opium and heroin are produced and trafficked from Afghanistan. Several factors however complicate attempts to establish a baseline understanding of the extent of drug use and substance-use disorders in Iran, such as the lack of standardization in terminology and research tools, with many estimates conflating individuals suffering from substance-use disorders with recreational drug users. Moreover, another key issue has been the stigma faced by drug-involved communities and their fears of reprisals should they be truthful about their drug use in surveys or questionnaires.¹⁸⁰

Between 2005 and 2015, various official estimates placed the number of 'addicts' at between 1.2 million and 3.7 million adults, without giving further clarification on the breakdown of individual substances used by these people, while unofficial reports estimate that there are up to 6 million adults with substance-use disorders.¹⁸¹ By 2017, the spokesperson of the DCHQ stated that the number of addicts had doubled between 2011 and 2017, and that among the adult population (ages 15–64) there were about 2.8 million 'addicts' in Iran (5.4% of all adults).¹⁸² The most recent national household survey on drug use was conducted in 2015, although the results were not allowed to be released until 2019. While the study only focused on identifying the proportion of individuals who had used drugs at any time in their life (8.5% of the study sample), and past-week drug use (4.3%), it nevertheless found that the prevalence rate was more than twice the previous estimations.¹⁸³ Substance-use disorders and related detrimental public-health outcomes appear to be disproportionately concentrated among vulnerable socio-economic groups, such as ethnic minorities.¹⁸⁴

A drug user smoking heroin.
© Paula Bronstein/Getty Images

Policing drugs

Due to the horizontal nature of the opiate trade, whereby transactions are facilitated by numerous intermediaries and traffickers are often unaware of the identity of buyers and sellers, the Iranian police force reportedly seldom succeed in dismantling large-scale criminal networks.¹⁸⁵ As with many other law-enforcement agencies in the region, Iranian police often lack capacity to undertake complex investigations or collaborate with other state agencies and law-enforcement agencies of neighbouring countries.¹⁸⁶ This is compounded by the underlying paranoia and animosity between state actors and fear among the police over investigating state actors such as the IRGC.¹⁸⁷ Whenever Iranian law-enforcement agencies do manage to dismantle networks, details are often scarce. For example, January 2020 saw the execution of the so-called 'Crocodile of the Gulf', who according to the Hormozgan province chief prosecutor Ali Salehi was alleged to lead 'one of the biggest and most vicious drug-trafficking networks in Iran and the region'.¹⁸⁸ This individual was allegedly

arrested while trafficking more than 100 tonnes of drugs in international waters following a year-long intelligence operation, but his true identity was never disclosed by the authorities and neither was that of his accomplices.¹⁸⁹ Such news from official Iranian sources should therefore be interpreted with caution, especially as the Iranian government has a track record of manipulating data and news information for propaganda purposes.

Law-enforcement agencies focus on seizing drugs as they move from the borderlands to major cities and urban areas, deploying a network of shifting roadblocks and carrying random vehicle checks along the major highways connecting the east of the country with Tehran and other major cities – an approach that produces quick results and requires far less capacity than complicated intelligence-led operations. But according to Arya, a police chief of a satellite city to Tehran, these arrests only catch those involved in the transit of drugs, with the system designed to shield the identities of buyer and seller:

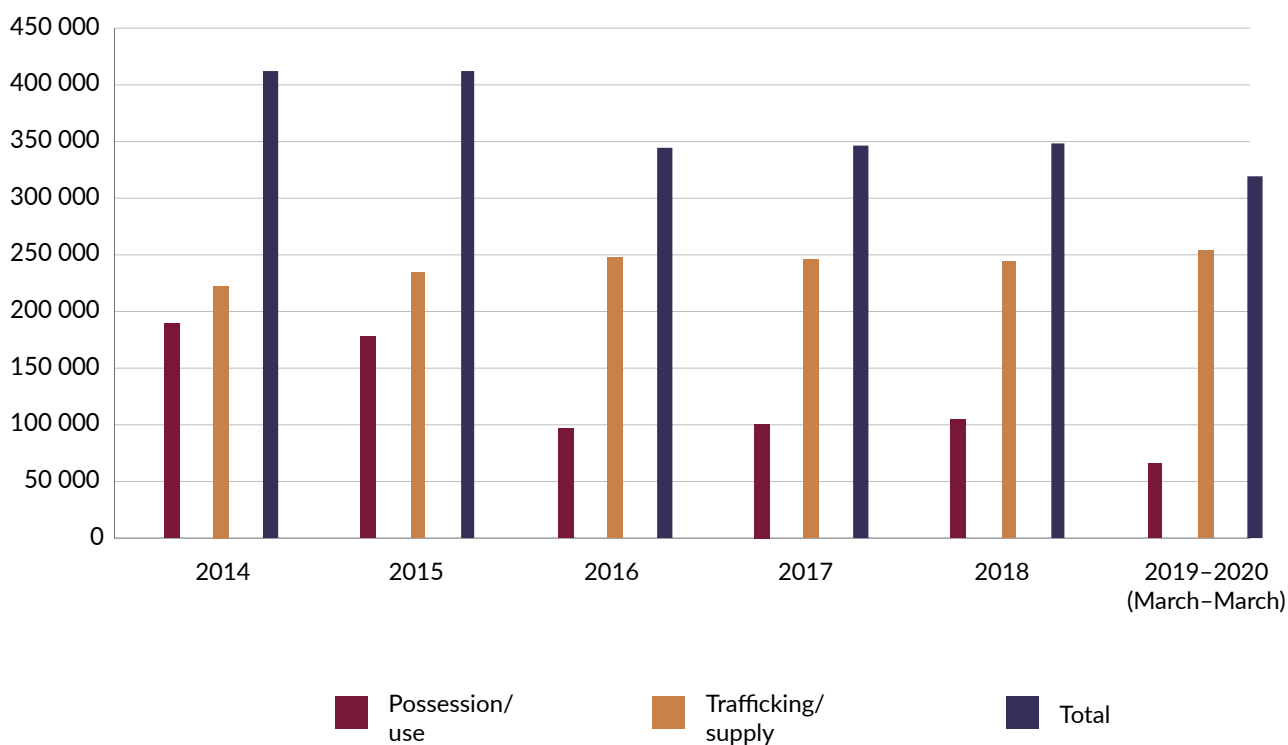


FIGURE 9 Number of drug-related arrests, for possession/use and trafficking/supply offences, 2014–2020.



Members of the Hashed al-Shaabi (Popular Mobilization) paramilitary forces stand guard on the Iraqi side of the Mandili crossing on the border with Iran on 11 July 2020. © Maya Gebeily/AFP via Getty Images

Often, the seller and buyer don't even see or meet with each other ... For example, I call a friend in Zahedan [the capital of Sistan and Baluchistan province], I tell him that I want 500 kilograms. The guy goes to the border and buys 500 kilograms from the border smugglers. The guy gives the drugs to a truck driver and tells him to leave it at a certain place and at a certain time. This way, when the drivers get caught, they do not know whose the drugs are.

When the drugs have reached their transshipment point in urban areas, it is more complicated for police to identify and apprehend the individuals and groups involved. Arya explains the challenges faced by law-enforcement agencies in these areas as large shipments are broken down at street level:

If I'm a 500 kilogram importer, people come to me and buy 2-3 kilograms. Those buyers then distribute to a range of smaller dealers. From the police point of view, for example, we might get information about someone dealing. And so, we record

their phones and do surveillance over a few days perhaps. Although it is much harder to apprehend people once the drugs have reached their destination. It is easier to catch in transit, especially larger amounts.

A number of commentators and UN member states have argued that elements of the Iranian government are complicit in these drug flows.¹⁹⁰ In particular, the IRGC have been accused of operating their own drug supply chains to raise funds for overseas operations, including support for terrorist organizations in the region.¹⁹¹ As a result, in 2012 the US Treasury Department designated then-Quds Force General Gholamreza Baghbani as a 'Specially Designated Narcotics Trafficker pursuant to the Foreign Narcotics Kingpin Designation Act (Kingpin Act)¹⁹² – the first use of the Kingpin Act against an Iranian official. The Treasury Department justified the designation in a press statement explaining that:

General Baghbani allowed Afghan narcotics traffickers to smuggle opiates through Iran in return

for assistance. For example, Afghan narcotics traffickers moved weapons to the Taliban on behalf of Baghbani. In return, General Baghbani has helped facilitate the smuggling of heroin precursor chemicals through the Iranian border. He also helped facilitate shipments of opium into Iran.¹⁹³

As a family member of a border officer explained, the police are explicitly told not to stop the IRGC's vehicles and to check these for smuggled goods or drugs:

When they [the IRGC] call and say that they are travelling past the checkpoint they take the [sniffer] dogs inside.... They don't dare to look at their vehicles let alone touch or search them.¹⁹⁴

While the level of involvement of the IRGC in the drugs trade has been highlighted on several occasions by foreign commentators and intelligence agencies, its level of participation remains unclear. Questions remain as to whether this involvement is instigated by specific individuals or is an organization-wide accepted practice designed to generate revenue and expand the IRGC's political, economic and military reach.

This issue was not only frequently raised by drug traffickers and dealers, but was also alluded to by the police and senior government officials, who all claimed that 'the state' is involved in the drugs trade. Due to the high level of corruption in the Iranian state, and the inability for any actor to conduct independent and impartial investigations into government agencies, these accusations cannot be fully substantiated or proved. While foreign intelligence agencies have found evidence of IRGC involvement in the drugs trade (as with the designation of Baghbani under the Kingpin Act), the Iranian government has consistently rejected these allegations. However, the widespread suspicion regarding government involvement in the drugs trade has undermined the perception of fair governance in Iran and overall trust in the state.

Two-pronged Iranian drug policy

The illicit drugs trade continues to be one of the main challenges facing the Iranian healthcare infrastructure, criminal-justice system and law-enforcement agencies. The country's role in global drug supply chains has given rise to extensive debate by experts and scholars, including heated debates in the Majles on the causes and consequences of drug supply in Iran.¹⁹⁵

The Iranian state has adopted a two-pronged approach towards illicit drugs. Firstly, it relies on militarized supply-reduction interventions, applying the combined forces of the IRGC, Artesh and the Anti-Narcotics Police to crack down on drug-production and supply networks. Secondly, a demand-reduction system has emerged, administered by numerous NGOs and health professionals, that seeks to treat drug dependence through a range of evidence- and non-evidence-based interventions.

Supply-reduction interventions

The state's drug-control efforts are heavily supported by revolutionary propaganda, with official government statements frequently blaming the West for the drug problem in Iran.¹⁹⁶ Through these discourses, drug-supply issues have been deeply securitized, justifying harsh punitive and exceptional responses on the basis of national security.

Widespread suspicion regarding government involvement in the drugs trade has undermined the perception of fair governance in Iran and overall trust in the state.

This was particularly the case in the immediate aftermath of the Islamic Revolution, when the drugs problem was blamed directly on the West and drug traffickers were referred to in official discourse as ‘merchants of death’ who were seeking to undermine the newly formed Islamic Republic.¹⁹⁷ But while supply-reduction interventions became increasingly harsh after the 1979 revolution, it was only after the cessation of the Iraq war that the state could afford to seriously redirect attention towards militarized supply-reduction interventions.

This securitized approach has been visible in the high number of executions of drug offenders, particularly in the mass executions carried out between 1988 and 1990.¹⁹⁸ Overall, it has been estimated that more than 10 000 people were executed for drug-related offences between 1979 and 2011.¹⁹⁹

The securitized approach has two key objectives. Firstly, it reinforces the idea of the state as the protector of the people against foreign corrupters, in line with revolutionary propaganda. Secondly, for those elements of the state involved in the drugs trade themselves, the approach protects their market share by redirecting attention to non-state actors involved in the trade and potentially driving up prices, thus ensuring higher profits.

Under this approach, harsh sentences are handed down for crimes involving the trafficking and supply of drugs, with those convicted of relatively minor drug-supply crimes (such as the trafficking of small amounts of synthetic drugs) regularly sentenced to death.²⁰⁰ In late 2017, Iranian authorities announced a moratorium on the death penalty for drug offences, with many pre-existing verdicts commuted to life sentences.²⁰¹ However, a number of caveats remain and executions are still carried out for a number of offenders including armed traffickers, those who use children for drug smuggling or sales and those who injure or kill a member of the security forces, as well as drug traffickers (such as the ‘Crocodile of the Gulf’).

The success of the supply-reduction strategy is unclear, with record amounts of drugs still being smuggled through Iran every year. Although the state does seize large quantities of drugs annually,²⁰² domestic consumption rates have been rising steadily²⁰³ and there is growing discontent with the efficacy of the security forces in curbing drug supply.²⁰⁴

Drug-demand reduction

By contrast, Iran’s second approach towards illicit drugs – drug-demand reduction – has been hailed as one of the most progressive in the Middle East. Major Iranian cities now offer a range of harm-reduction interventions, such as needle and syringe programmes (NSPs) and ‘triangular’ clinics that offer counselling and testing for a range of infectious diseases (such as HIV/AIDS and hepatitis), while according to official statistics, hundreds of thousands of drug users have accessed programmes of opiate-substitution therapy (OST) that have sought to displace the use of illegal drugs with prescriptions of methadone, buprenorphine and opium tincture.²⁰⁵

The progressiveness of Iran’s harm-reduction programmes is especially notable given that drug treatment was outlawed in Iran after the revolution and only began to re-emerge in 1988 after the Iran–Iraq war. The election of reformist President Mohammad Khatami in 1997 helped boost support for the movement and harm-reduction interventions rapidly expanded.²⁰⁶ This shift coincided with the spread of HIV/AIDS, particularly in prisons, from unsafe injecting practices, and when these issues converged, harm reduction gained significant political momentum.²⁰⁷

However, over the past few years harm-reduction and evidence-based treatment modalities have lost political support and been sidelined, while the use of non-evidence-based interventions have increased in importance. This shift in policy was confirmed in a number of interviews with officials, practitioners and academics. Kasra, a senior official in one of Iran’s largest NGOs providing treatment and support services to drug users, explained that the shift had come about because of a failure in communication over the efficacy of harm-reduction programmes:

Harm-reduction practitioners said that after a number of years the problem will get better, the drug users will get better. From a harm-reduction perspective, this meant that the harms associated with drug use will be reduced and their lives will improve. [But] policymakers thought that this meant that these people will be drug free. So, after 10 years it was questioned, what has actually been achieved with these harm-reduction programmes?



Iranian drug users receive clean syringes and drug use equipment at the Persepolis NGO, 2004. The NGO operated a backstreet drop-in centre for drug users, providing clean needles and methadone to scores of users daily. © Henghameh Fahimi/AFP via Getty Images

The shift in policy has seen the expansion of so-called 'drug-treatment camps'. No public records are available on the number of camps or detainees across Iran, but it is likely that tens of thousands (at a minimum) of people are detained in these camps at any given moment.²⁰⁸ The advent of these compulsory treatment camps has 'provided an alternative device for the maintenance and management of this population [of drug users]'.²⁰⁹ Moreover, talks of IRGC and Basij involvement in the camps has prompted fears as to what goes on inside these institutions, as most camps operate without any oversight.²¹⁰

There is constant tension within the drug-treatment community in Iran between abstinence and harm-reduction/treatment groups, and between these groups and the supply-reduction system. This tension manifests clearly at the point where the drug user first encounters the state. Although drug users are supposed to be referred

to compulsory treatment, if they are found in possession of any drugs it is up to the discretion of the police officer if the user is arrested and charged for the possession offence first, or if they are instead brought to treatment.

From the qualitative research conducted for this report in a number of open-air drug markets in Tehran, and with drug users in a range of settings, it is evident that users are subjected to frequent arrests and maltreatment. This in turn greatly diminishes the likelihood of users seeking treatment and support and increases drug-related harms as users resort to risky drug-consumption practices in unsafe environments. These practices nevertheless find some support in the drug-treatment system among those who favour abstinence-based treatment modalities, on which the system of drug-treatment camps is based (see the case study).



A female drug user waiting for a phone call from her family in a drug treatment centre on the outskirts of Tehran. © Monique Jaques/Corbis via Getty Images

Drug-treatment camps

Drug-treatment camps were frequently highlighted in interviews with a range of practitioners as a crucial part of a corrupt system which operates with little oversight by judicial or health authorities. In this system, police officers are bribed to round up marginalized and vulnerable individuals from the streets and forcibly take them to the camps. The camp managers are subsequently rewarded by the state and the families of these individuals by being paid per 'client'. These incentives have led to a rapid expansion of the system.

A prominent scholar who had been tasked by the government to conduct an evaluation of the camps found that most camp managers had no formal training related to substance-use disorders, most managers were former drug users or police officials themselves and one of the most frequently reported issues by clients was hunger.²¹¹ (The state actively buried the results of the report.) Furthermore, several observers have reported the use of non-evidence-based interventions, such as pushing drug users into cold-water pools during winter, regular beatings and depriving clients of their medication (in particular those suffering from mental-health issues). The official study conducted for the government underscored the failure of these institutions to 'reform' drug users, finding that the average client had attended camps between five and 10 times. Several rounds of interviews conducted with drug users in various settings for this report strongly supported this finding.

Narratives of traffickers and dealers

Sistan and Baluchistan, home to the Sunni Baluch ethnic minority, is one of the most important Iranian provinces through which Afghan opiates are trafficked. The province is the poorest in Iran, with widespread poverty and unemployment recorded in official statistics (some official estimates claim that up to 80% of the Baluch population live below the poverty line).²¹² Despite major government spending on border-enhancement efforts in the past decade, drugs continue to enter Iran through numerous unsupervised entry points along the Pakistan–Iran eastern border. (This border is also used by human smugglers bringing Afghans into Iran via Pakistan.)²¹³ As described by Amnesty International in a 2011 report, Afghan traffickers usually transport drugs overland to Afghan villages close to the Iranian border, where the drugs are stored for a few days before couriers carry the drugs across unsupervised parts of the border.²¹⁴ Once the drugs have entered Iran, a network of intermediaries facilitates the transport to the southern ports (through which the drugs enter the southern trafficking route), or through the interior of the country for domestic consumption and onward transshipment through the Balkan route.

A number of individuals involved in the supply of drugs were interviewed for this report in order to build an understanding of the trafficking and distribution of illicit drugs in Iran, focusing on the market, routes and implications for law enforcement and criminal justice. One of these individuals is Mansour, a truck driver who was caught trafficking 250 kilograms of opium from Sistan and Baluchistan to Tehran in 2009. He was interviewed several times over the course of a six-month period when he was on temporary leave from prison.

Mansour's story is very similar to that of other truck drivers who smuggle opium and heroin across Iran. He grew up in a city on the outskirts of Tehran – a major transit point for drugs from Afghanistan – and at the age of 17 started smoking opium occasionally with friends. In his twenties he found a job as a driver and began transporting legal goods in a small truck between the eastern border provinces and Tehran. He started trafficking opium and heroin both to supplement his income and to stay close to opium. His drug use increased over the next two decades until eventually he developed a physical and psychological dependence on the drug:

I searched for a job that was close to these things [drugs] – I actively started seeking it. Everyone says 'I won't get addicted' – and I wasn't either until I was 40 years old. I did not know what addiction was, I was strong in my body. If you smoke for fun it is one thing – I smoked for need. I woke up and the only thing I was thinking about in the morning was this [showing some opium in his hand]. It was the sun to my body. I woke up and ate *shireh* [opium molasses] in the morning – I ate 3 grams every day! I then smoked 25 grams with the *vafoor* [opium pipe]. I ate *shireh* so I could then smoke opium with the *vafoor*.

Mansour used the cover of his profession to smuggle increasingly large quantities of opium from Sistan and Baluchistan to Tehran and surrounding areas, where he would leave the truck overnight to be emptied, often by unknown individuals. As he explained over the course of several interviews, he started small and worked his way up to larger amounts:

Mansour used the cover of his profession to smuggle increasingly large quantities of opium from Sistan and Baluchistan to Tehran and surrounding areas.

With the first car that I rented I quickly wanted to make money. The first opportunity that I had I trafficked three kilograms between Chabahar and Sarbaz. I was paid 6 000 toman per month to do the legal transportation work [in the early 1990s, IRR 60 000, or US\$40], bringing freight from Sistan and Baluchistan here. The owner did not know I was also trafficking opium on the side.

These 3 kilograms became my wealth. I came home, delivered the drugs and went back as quickly as I could. This time I went for 6 kilograms – 12 kilograms – 24 kilograms, etc. My wealth continued accumulating. I built a house, I bought land. My finances started getting better. I bought a car – I bought a truck and trailer after three years.

Mansour also put his children through university and distributed his resources among family members and acquaintances in his village. Then in 2009 he was contracted by his employer to bring a shipment of licit goods from Sistan and Baluchistan to Tehran. Alongside the licit goods, he filled the secret compartment of his trailer (which had been added to smuggle drugs) with more than 250 kilograms of opium. But Mansour's luck had run out – he was apprehended in a checkpoint in central Iran. At this point, Mansour had been involved in trafficking drugs for more than three decades. When asked why he decided to engage in drug trafficking, Mansour talked extensively about poverty, inequality and corruption as the driving factors: 'One day, I said "let's get into this ourselves". We go get 0.5 kilogram, 1 kilogram, etc. Our society is corrupt. If we do not do this ourselves, we are stupid! And so, my involvement got bigger and bigger.'

Due to his supportive network of contacts, and since he strenuously denied any knowledge of the drugs in the hidden compartment of the trailer (since the trailer belonged to his employer, he was able to claim that he had no knowledge of its contents), he managed to avoid capital punishment. Instead, he was sentenced to 15 years in prison.

Downstream from the network of truck drivers who traffic drugs across Iran are the networks of wholesalers and dealers. Kazem is an opium dealer living on the outskirts of Tehran who was interviewed for his experience with prison and with opium supply chains. He occupies a position in the drug supply chain between wholesaler

and street dealer. Kazem receives 10 kilogram batches of opium from his contact, which he subsequently sells in quantities ranging from 100 grams up to a kilogram. His contact is the intermediary of an organized-crime network operating outside Tehran, who themselves are linked to traffickers in Sistan and Baluchistan through a network of truck drivers and workers in the logistical industry, who traffic consignments of up to a tonne of opium and heroin. Kazem spent four years evading the authorities after they had found 1.5 kilograms of refined opium during a raid on his home. Kazem described how the drugs made it to the distribution points in Tehran, and the internal dynamics which ensured that no one could renege on drug deals:

Kazem: There are these powerful mafia families in some of the cities around Tehran. For example, in X²¹⁵ they import large quantities of opium and heroin, up to 1 tonne at a time. You can easily conceal this on the lorries or pickup trucks that come from Sistan and Baluchistan. Once it arrives there [Tehran], they distribute to smaller dealers, a couple of kilograms here and there. Meanwhile, they sit safe at home and take none of the risk – the risk is instead spread to the traffickers and to those who distribute on a smaller scale. They buy it from Baluchis often. They [the Baluchis] drop off the goods, and collect payment at a later date. This is how it usually works.

Interviewer: Can't they run away then with the drugs?

Kazem: They can't! There was this one guy, he got 500 kilograms from the Baluchis, but refused to pay and went into hiding. And so they took his brother's children hostage until he paid off the debt, over two months or so. The Baluchis don't give the product to anyone, they give to those with families and roots, so that in case you do not pay, they can come after your relatives, even if you go into hiding.

Mansour and Kazem are two individuals who are representative of a number of current and former traffickers and dealers who were interviewed for the report. Their stories showcased the complexity in tackling what has evolved into highly extensive networks for the trafficking and supply of drugs in Iran. These networks have evolved over decades to perfect their methods, aided by corrupt



Prisoners gather around a small outdoors exercise area at Evin Prison in Tehran. © Kaveh Kazemi/Getty Images

law-enforcement officers who frequently turn a blind eye in return for payment.

Drugs and corruption in the prison system

Concerns surrounding corruption and the availability of controlled substances in prison have been raised for several decades, as these settings have become incubators for substance-use disorders.²¹⁶ Farzin, a former heroin dealer who was arrested in 1982 and sentenced to eight years in prison, shared his experiences of being incarcerated shortly after the Islamic Revolution:

I was in a special prison-wing for drugs. I would say that out of 1 000 people in jail, 999 became addicts, if they were not already, and the one person who did not was me. The bigwigs distributed the drugs in jail brought in by other prisoners or the guards. Maybe outside jail you had to wait for 10–15 minutes to buy drugs, inside it was right then and there – you told someone ‘I want drugs’ and they gave it straight to you, in your hand.

They tried to get me to swallow drugs and bring them back inside when I was on temporary leave from prison. They asked me to bring between 100 and

200 grams. I did not want to and said I was not interested. Men sold themselves in jail for drugs. There was so much drugs in prison.

In 2016, the head of the prison organization stated that 70% of inmates were ‘drug addicts’, and that approximately 100 000 people were in prison for drug-related offences.²¹⁷ Many prisons offer OST for inmates in recognition of the levels of drug use and unsafe consumption practices that take place. A senior UNODC official explained how prisoners often use shampoo bottles with needles as makeshift syringes, sharing this injecting equipment with a number of inmates. As Mansour explains, drugs offer inmates a ready escape from the strictures of prison life:

In prison it is so difficult. Outside maybe you smoke a cigarette or two when things get rough, you go outside for a walk. In prison, what are you supposed to do when there are only drugs around and all these problems?! ... Where I am, I even have a *vafoor!*

The widespread availability of drugs in Iranian prisons has frequently been highlighted by scholars and in the media.²¹⁸ Several prominent academics interviewed for this report claimed that drugs are more easily available in

some prisons than outside. Kazem explained how his fear of being denied access to opium in prison was quickly disproven:

I was afraid ... for 20 years I had not been without access to opium – I feared that there would not be any opium in jail. [But] from the very first day, the officer who arrested me would come, twice a day, and give me *shireh* [opium molasses] in my mouth – with tea. He did this for the three days in the holding cell, and my mind was much more at ease.

When they brought me to prison, I was provided with a card to purchase things and I had quite some money on it. In prison, if you have money you can do anything and everything. When I was being taken there, my brother met me and gave me some opium that I placed in my pocket. However, when I was brought into prison, I could not find it! So, I thought I'd dropped it.

When I was searched by the prison officers they found the opium, still in the pocket – it had gotten warm and stuck to the lining. So, I gave the prison officers some money and they kept quiet. When I arrived in jail, out of the 200–300 prisoners in my section, I probably knew 80% of them! They greeted me warmly, with opium! It took less than five minutes and I had some opium in my hand. They greeted me with a lot of it – they knew I had money, so they gave me everything and anything I wanted.... As soon as they lit the lighter for my opium, I felt what a good place this is! Why did I run for four years?

The ready availability of drugs in prison is facilitated by a climate of pervasive corruption, as described by Mansour, who was asked to run the drugs trade by prison officials due to his expertise:

There are lots of drugs in prison. They [prison officials] all know about this and they allow it – due to bribes. The director of our prison was very aware of this. One day he told me, 'give me two Persian carpets per week and I'll let you run the drugs in prison'. I had to pay him the rugs.... They caught him after a while, they found out that he owned five supermarkets and had somehow become one of the richest people in Yazd.²¹⁹

Similar dynamics of corruption also play out in the provision of harm-reduction programmes in prison, as highlighted by Asghar, a senior professor at a university in Tehran and an expert on the Iranian drug-treatment system and drug policy:

Prison harm-reduction programmes ... are not funded anymore, they are no longer free of charge. First, I thought that it is okay if you charge prisoners for these services. After I looked into it and understood the issue better, I realized that this is one of the major sources of corruption in prison.... Take methadone for example ... if you work for a gang inside prison, methadone is a lot cheaper or perhaps even free! At some point, if you don't work for a gang or do not have the right contacts you get excluded from the [harm-reduction] programmes – you won't receive anything.

This widespread corruption in Iranian prisons is indicative of the corruption that exists across Iranian politics and society. It is a key reason for why the drugs trade and other illicit economies have been allowed to flourish in the country, as there are always important senior benefactors who would rather allow the trade to continue under their control than for it to be fully stamped out.



Female drug users relax and smoke cigarettes in the yard of a drug treatment centre on the outskirts of Tehran. © Maryam Rahmanian/Getty Images

The rising (and shifting) methamphetamine trade

The domestic production and use of *shisheh* (crystal meth) in Iran has posed a major challenge to law-enforcement agencies and the healthcare system over the past decade.²²⁰ The rise of Iran as a source country for methamphetamine has been reflected in the large seizures not only in Turkey but also in East and South East Asia (including Thailand) as well as in Australia, where the drugs were perceived to have been produced in or trafficked from Iran.²²¹ Whereas only four methamphetamine laboratories were discovered in Iran in 2008, this number soared to 445 in 2013.²²² Although there has been a steady decrease in labs identified and dismantled since 2013 (see Figure 10), seizures have remained high, with Iran a significant contributor to overall seizures in the region, according to the International Narcotics Control Board (INCB).²²³ Significant methamphetamine production in Iran has had a major impact on drug-use patterns in the country. The burden of methamphetamine-related disorders was most striking in 2010, when a study concluded that *shisheh* users took up one third of all psychiatric-hospital beds.²²⁴

Year	2012	2013	2014	2015	2016	2017
Labs dismantled	214	445	340	216	181	141
Methamphetamine seizures (kg)	2 664	3 677	2 644	2 419	1 770	2 302

FIGURE 10 Methamphetamine labs dismantled and drug seizures: 2012–2017²²⁵

Iranian authorities now claim that Afghanistan is the source country for methamphetamine consumed in Iran.

Although methamphetamine production and use has caused major concern, with significant domestic policy debates on how to manage the problem,²²⁶ in recent years the market has seemingly shifted, with expanding methamphetamine production taking place in Afghanistan.²²⁷ Iranian authorities now claim that Afghanistan is the source country for methamphetamine consumed in Iran,²²⁸ with several newspapers writing about the emergence of 'Afghan *shisheh*' in 2019.²²⁹

This portrayal of Afghanistan reinforced a pre-existing characterisation of Iran's neighbour as the root source of the country's drug problems. At an annual conference on drug addiction in Tehran on 5 September 2017, the Public Health Deputy of the Ministry of Health, Alireza Raeisi, opened the event by stating:

Our country is in trouble. ... Our eastern neighbour is Afghanistan. This is the epicentre of drugs production in the world, and from this Iran faces the critical issue of drug trafficking. ... We need to recognise the hard work of our border protectors, our martyrs on the border, the fight against drugs from Afghanistan is hard!

In casting Afghanistan as the external threat to Iran, Raeisi was adhering to principles of Iranian revolutionary ideology, with the state acting as protector against malign foreign influences. (Absent from Raeisi's assessment, of course, was any consideration of the role that state actors are alleged to play in the drug-trafficking trade, and the widespread corruption that allows criminal networks to operate). The impact of the rise in methamphetamine production in Afghanistan on border security and pre-existing drug-trafficking chains is not yet clear, although it is likely that it will pose an additional burden and increased complexity for border-control efforts.

Three important factors seem to have converged in facilitating the shift in methamphetamine production from Iran to Afghanistan. Firstly, Iran has increased domestic regulation of over-the-counter (OTC) decongestants and made changes in the composition of those drugs in order to complicate the process by which pseudoephedrine (a precursor in methamphetamine production) could be extracted. Secondly, the influx of producers drastically reduced the profit margins for those involved in the supply of methamphetamine. Lastly, increased Iranian law-enforcement capacity to identify and dismantle methamphetamine supply chains seems to have had an impact on the market.

The rise and fall of Iranian meth production

Mehran, a former producer who was involved in the large-scale supply of methamphetamine for several years, explained the dynamics behind the rise and subsequent decline of Iranian methamphetamine production. He stated that production began in Iran around 2004, when the majority of methamphetamine was imported at high cost from countries in the Far East, such as Malaysia and the Philippines, limiting profits for local distributors.

Once Iranians learned the 'production formula' and managed to obtain access to cheap precursor chemicals (through OTC decongestants and diversions from the pharmaceutical industry or precursors trafficked across the border from Iraqi Kurdistan), Iranian production rapidly increased (a rise confirmed by official accounts and seizure data).²³⁰ This increase in methamphetamine production in Iran was a result of knowledge transfer between meth labs. Owing to widespread unemployment, producers easily attracted

labour to assist in the manufacturing process, and these workers soon set up on their own. As Mehran explained:

I went to a lab and worked there and learned how to cook. After a few months, for example between one to four months, I left that owner as I knew the process myself. I then would go and produce myself. Like this, everyone taught and learned ... until the situation became as currently.

But this rapid increase in the number of producers meant that methamphetamine became widely available, which had a significant impact on the profit margins enjoyed by the lab owners, as described by Mehran:

For example, in 2004, from 1 kilogram of *shisheh* you could profit 100 million toman [approximately US\$28 200 in 2012, the earliest year for reliable black-market exchange rates].²³¹ But nowadays, from 1 kilogram of *shisheh* I believe you would only generate 3 million to 4 million toman in profit [between US\$260 and US\$350 at the July 2020 black-market exchange rate].

Those times, if someone wanted to produce *shisheh*, with 20 million toman of inputs you could produce 3–4 kilograms *shisheh*, and profit up to 300 million–400 million toman. But nowadays, for someone who wants to do this work, they would need 30 million toman worth of inputs to produce 1 kilogram, and they can then only sell it for 33 million–34 million toman.

Concurrent with these changing market dynamics, OTC decongestants became more expensive and complicated to access in the quantities needed for production due to increased government regulation. Whereas producers would have enlisted a number of people to scour the pharmacies of Tehran to buy large quantities of cold and flu pills in the heyday of the methamphetamine trade, now they increasingly have to rely on diverted ephedrine from the pharmaceutical industry or precursors trafficked from Sulaymaniyah and other places in Iraqi Kurdistan – raising the input costs and risks associated with production. Moreover, in comparison with the trafficking of Afghan opiates, which takes place across a much longer and more complex supply chain, with a wealth of intermediaries complicating interdiction efforts, Iranian methamphetamine has tended to be produced in urban areas in so-called 'kitchen labs', which are located much closer to the end consumer. The weaknesses of this shorter supply chain have been exploited by Iranian law-enforcement agencies, as explained by Arya, the police chief based in a city on the periphery of Tehran:

For *shisheh*, because it is produced here, we arrest the user. We push them and scare them until they give us the info of their seller. *Shisheh* production produces a lot of smells,²³² and so often they burn things in the area – for example tyres and rubbish – to mask the smell from the drug production. And so when we get information about dealing and see that things are burning in the area, then we do surveillance, arrest the users and work up the chain.

Reduced profits, increased complication in accessing precursors and increased law enforcement thus seem to be the drivers of the shift towards production in Afghanistan.²³³ Knowledge transfer between Afghanistan and Iran is also a factor. As explained by Mehran and stated by others involved in the supply of methamphetamine who were interviewed for this report, Afghan workers in Iranian labs brought the



Aerial view of the Mandili border crossing between Iraq and Iran, July 2020. © Thayer Al-Sudani/Pool/AFP via Getty Images

knowledge of *shisheh* manufacturing back to Afghanistan, while Iranian cooks were also brought to Afghanistan to train locals in operating the labs.

According to the INCB, the first methamphetamine laboratory in Afghanistan was identified in 2013 in Nimruz, the province bordering Sistan and Baluchistan in Iran.²³⁴ Since then, the trade has quickly evolved.²³⁵ In late October 2019, Sardar Massoud Zahedian, head of the Iranian NAJA anti-narcotics division, stated that 6 tonnes of 'Afghan *shisheh*' had been seized along Iran's eastern border since March that year.²³⁶ Iranian officials later reported a 332% increase in methamphetamine seizures between March 2019 and January 2020



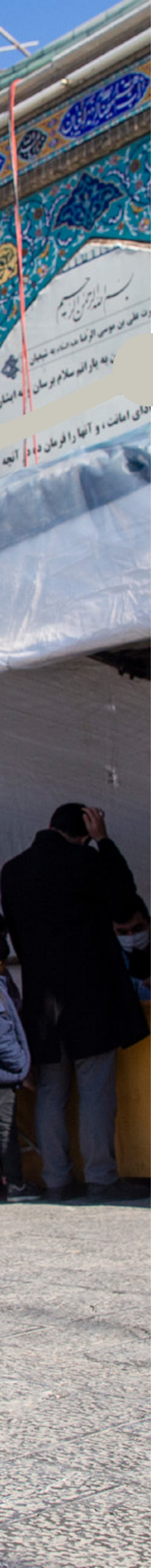
compared to the same period the previous year, although it is unclear what proportion of this increase is due to Afghan-produced methamphetamine.

There have also been a number of seizures that indicate the spread of Iranian/Afghan methamphetamine to global markets.²³⁷ For example, on 24 April 2020, Australian authorities arrested two Iranians in Sydney and seized almost 160 litres of liquid methamphetamine worth a reported AU\$80 million (approximately US\$50 million).²³⁸ The shipment originated in Iran, with the liquid stored in bottles labelled as mineral water.

Ultimately, questions remain as to what role Iran will have in global methamphetamine supply chains, and who will profit from this relatively new illicit export. If lessons are to be drawn from the trafficking of other substances, it is likely that an array of state and non-state actors will profit from this trade.



CONCLUSION



Of course, bribes exist everywhere. You know, we are all in the same train. If a train has 1 000 wheels, one wheel can't move slower or faster than the other wheels. In our society, if the doctor in the hospital, the engineer at the roadworks, and so on, if all of them take a bit of extra [cash] and put it in their pocket, why shouldn't the police do it? If it exists somewhere, it will exist everywhere.

FORMER DIRECTOR OF DCHQ

This report on illicit economies in Iran has sought to ground the study of illicit activities in a deep understanding of the Iranian state and political system to show how the line between legal and illegal is constantly blurred by state involvement in illicit flows. The state turns a blind eye to the illicit activities of those loyal to the ruling elite, such as exploiting and manipulating the currency trade and engaging in large-scale smuggling of licit and illicit goods and resources, while targeting already vulnerable and marginalized communities along the illicit supply chains. Corruption, patronage and clientelism have become the norms in a society that has been formed over decades of de facto rule by unaccountable government institutions and repression of internal critics and dissidence – as stated by a senior professor in Tehran interviewed for the report, ‘no one sees corruption as corruption any more’. Four decades of sanctions have moulded an Iranian state that has perfected the art of evading them (albeit at a great cost to its own citizens), enriching the elite and those most closely connected to Supreme Leader Khamenei and his institutions.

Similar to other illicit flows and enterprises, the state is widely argued to be complicit in the drug trade. However, so are a number of other non-state entities, including marginalized communities along the Iranian borderlands and organized-crime groups. This report shows that Iran continues to be of pivotal importance for the flow of Afghan opiates along the Balkan and southern trafficking routes and more recently for the flow of methamphetamine from Afghanistan to countries around the globe. While the involvement of corrupt government officials and state entities in the drugs

◀ **Iranians queue to vote in the parliamentary elections in a polling station on 21 February 2020 in Tehran.** © Majid Saeedi/Getty Images

trade is seldom investigated, non-state actors are met with a harsh response, as evidenced by the shocking number of executions carried out for drug-related offences since 1979. While this strategy of selective acceptance may seem contradictory, it has become a cornerstone of the existence of the state: illicit activities are key to the survival of the ruling elite, allowing it to generate and distribute proceeds along patronage networks and to foreign proxies, while decisive shows of force against non-state actors are used as vital propaganda showing the state protecting the revolution and its achievements.

Considering the deepening pressure on the already-strained Iranian economy following the coronavirus pandemic, this report finds that illicit flows are likely to expand, as the Iranian state cannot afford a standstill in the economy. From day one of the outbreak, public authorities have sought to manipulate evidence and data in order to keep people going to work and the economy running. As foreign exchange rates worsen and inflation rapidly rises beyond the already bleak projections for 2020, the political elite will use any means necessary to stay in power, as seen in the recent trade deal with China that has been widely condemned by Iranians as selling the country piece by piece. But the lifeline afforded by these trade deals can only do so much to keep the economy afloat, and the government will have to allow an expansion of various smuggling enterprises by those loyal to the ruling elite in order to prevent the country from descending into chaos. Without the revenue generated from illicit flows, Iran's clientelist politics and support for proxies across the region would not be possible.

As pressures intensify, changes in illicit flows will likely become visible, such as in the evolving drugs trade whereby Afghan-origin methamphetamine is being trafficked through Iran for lucrative global consumer markets. Meanwhile, drug use in Iran shows no signs of abating, and it is likely that substance-use disorders will increase as the civilian population faces increased economic pressures, which in turn will cause a further strain on the already weakened healthcare system.

Ultimately, the problems Iran face are both internal and external. It is clear that the ruling elite will do anything to stay in power, including systematically allowing and engaging in the corruption it was supposedly founded to stamp out. As argued by Mansour, the opium trafficker currently imprisoned in central Iran, 'no society can function properly until corruption is solved.... Why is there corruption? Because corruption is the law here.'

The Iranian political system is increasingly moving towards a traditional autocratic model, as the supreme leader has allowed (and actively supported) the IRGC and unaccountable state entities to involve themselves across all facets of society, while marginalizing the role of the elected state institutions in the country's politics and economy. Questions remain as to who will succeed Khamenei (now 81 years old), with many observers raising questions about his health, but it is likely that the IRGC and corrupt state entities will continue to play a significant role and contribute to making Iran increasingly authoritarian in the post-Khamenei period. Meanwhile, the Iranian people are caught between the pressures of sanctions and a political-economic elite that cares only for its own continuance. Illicit economies are therefore likely to become even more entrenched in Iran in the near future, both as a means of power and enrichment, and as a means of survival.

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