

IRAN

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SUMMARY



Last week, the inauguration of the presidency of Ebrahim Raisi took place, with the Islamic Republic's centers of power declaring the advent of a new era and a "new Iran". Raisi is taking office at a time when the Islamic Republic is facing unprecedented pressures domestically and internationally. Internationally, despite the EU's willingness to continue its policy of authoritarian stability toward Tehran, this approach is likely to face much stronger opposition from various quarters as the moderate façade of the Islamic Republic has now vanished with the end of the Hassan Rouhani era. Meanwhile, Iran is likely behind two attacks on shipping off the coast of Oman, which has intensified tensions with the West and Israel. Economically, Iran's tax authority is losing galactic sums of tax by the regime-affiliated super-rich class, which doesn't bode well for the country's economic and socio-economic prospects.

A "NEW IRAN": PRESIDENT RAISI INAUGURATED

This week, President Ebrahim Raisi took office after his victory in the June presidential election. During the inauguration ceremony in Iran's Parliament, Raisi delivered a speech in which he said: "I will dedicate myself to the service of the people, the honor of the country, the propagation of religion and morality, and the support of truth and justice." He also pledged to fight "Wherever there is oppression and crime in the world, [be it] in the heart of Europe, in the U.S., Africa, Syria, Yemen, Palestine." He stressed that "The message of this election is resistance against arrogant powers," the latter term referring to the U.S. in particular and the West in general. Before, on 5 August, the Islamic Republic's Supreme Leader Ali Khamenei held the endorsement ceremony for President Raisi, saying that he believes that the way which the latter had chosen to emphasize the principles of the Islamic Republic is a correct pathway. Khamenei stated that "our enemies" target Iranian public opinion through the media – what the Islamic Republic routinely refers to as part as a "soft war" –, therefore the administration should widely invest in this area.

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The Raisi presidency comes in the wake of a peculiar presidential election in June, when (a) most Iranians decided not to participate in the election amid a civil-society boycott campaign and (b) the election was rather a selection by Iran's key centers of power (most notably Supreme Leader Khamenei). Prior to the election, the ultra-conservative Guardian Council, which decides who can run for president, even disqualified Raisi's main potential challenger Ali Larijani, a conservative who has a close relationship with the Supreme leader. However, the choice for Raisi was probably due to his extremely loyal and pliant record of serving the Islamic Republic's highest echelons.

The Raisi presidency comes at a delicate time in the more than four-decade history of the Islamic Republic, both domestically and internationally. The failure of the nuclear deal and the enduring weight of Trump's "maximum pressure" sanctions even under his successor Biden as well as the two nationwide protests in less than three years has put the Islamic Republic in a tough situation. Against this backdrop of acute domestic and international pressures, the Iranian authorities have come to see the survival of the Islamic Republic at stake. It is also in this context that Tehran's top decision-makers put forward their preference for a super-loyalist like Raisi to assume the presidency. Domestically, [the Islamic Republic's "triple crisis" \(socio-economic, political and ecological\)](#) has constantly intensified, with each of these crises posing a threat to regime survival. There is now widespread belief among Iranians that their suffering has been foremost a result of the dismal performance of their officials. The rate of inflation stands at about 50% and the national currency has dropped six-fold against the U.S. dollar in only three years. More recently, a storm of domestic upheaval has gathered, notably (a) street protests in oil-rich Khuzestan province, kicked off by protests against a chronic water shortage, which quickly turned political with slogans chanted against the Islamic Republic, and which saw many solidarity rallies elsewhere throughout the country; and (b) strikes by thousands of oil and petrochemical industry contract workers since June 20, demanding higher wages.

Internationally, the Islamic Republic has faced U.S. crippling sanctions, which have hugely reduced Iran's revenue. While the Vienna talks with the aim of reviving the JCPOA are stalled after six rounds of negotiations, the main bones of contention between the main antagonists Washington and Tehran remain unsolved. In his inauguration ceremony, Raisi stressed that he will support any diplomatic efforts toward lifting sanctions, while the week before Supreme Leader Khamenei had explicitly warned that Tehran could not trust the West as the latter's goal had usually been to weaken the Islamic Republic. *Kayhan*, a hardline daily close to the Supreme Leader, has [stressed](#) that the "new Iran" under the presidency of Raisi is not dependent on the JCPOA's revival, adding that Iran will create a new equation in which the targeting of U.S. fighter planes and destabilizing oil supplies would become possible.

Meanwhile, Raisi has recently said that [Hezbollah in Lebanon is a role model](#) that is spreading throughout the Middle East and that his administration would fully support

Iran's "axis of resistance" strategy in the region. In fact, Tehran's regional policies have not only sustained the enmity between Iran and the West (especially the U.S.), but has also brought its Arab neighbours closer to its arch-enemy Israel.

While domestic and international threats against the Islamic Republic are interwoven, especially given the dark shadow of enmity with the U.S. that is sustained in managed way by the Islamic Republic, the following observations on Iranian strategy can be made:

(1) Iran's core centers of power wanted to make sure that the president will accept all orders – be it on foreign policy or quelling domestic dissent – in an uncompromising manner, to which end Raisi as a super-loyalist is a superb choice given his record since the revolution would be a great choice. In many ways, they may regard Raisi's presidency as kind of internship for the supreme leadership, i.e. the succession of the octogenarian Khamenei. In this power equation, the role of the IRGC – as the de facto iron fist of the Islamic Republic – will be key.

(2) In line with Khamenei's statements from last year that now a new chapter in the history of the Islamic Republic has commenced with a new generation of hardline revolutionaries assuming power (e.g. as can be seen from last year's parliamentary and this year's presidential elections that completed the monopolization of power by the wider hardline camp), the regime now propagates that a "new Iran" has emerged, one which will significantly challenge the West in the Middle East and even the talks for the revival of the nuclear deal. A core component of the strategy of that "new Iran" seems to be centred around an "escalation–de-escalation" approach. This includes the construction of a narrative by Tehran that the hardline administration is ready to impose more threats against Western interests. Iranian officials do think that the Biden administration will retreat in the face of a more offensive policy by Iran. Thereby, this "new Iran" hopes to be able to see U.S. sanctions removed given a modified cost-benefit calculation by Washington.

(3) In the new Raisi era, Tehran will be ready to suppress any domestic anti-regime movements or street protests in the future, not least because they can weaken Tehran's stance against the U.S.

EU'S "AUTHORITARIAN STABILITY" POLICY FACING CRITICISM

After it had become public that the EU would be sending a senior official for the inauguration of the new Iranian president, this decision was slammed by both European politicians (such as the foreign policy spokesman of Germany's Green Party, which is likely to enter the government after this fall's general elections and that may thus be playing a role in the future policy of Germany, the most important European country for Iran) as well as human-rights activists who criticized Raisi's legacy in the Islamic Republic's Judiciary. For instance, Amnesty International urged that Raisi's role in major human rights violations to be investigated and himself to be eventually put on trial. Notwithstanding, European External Action Service (EEAS) spokeswoman Nabila Massrali said on August 4 that Enrique Mora, EEAS Deputy

Secretary General and Political Director, was attending Raisi's inauguration on behalf of the EU's top diplomat Josep Borrell. "[It is crucial to engage diplomatically](#) with the new administration and to pass directly important messages," she said, adding the EU's key priority was "to facilitate the way back to full JCPOA implementation."

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Hassan Rouhani's outwardly moderate stance had made it easier for Europe to look the other way on Iran's controversial regional policies and domestic human-rights record. Now with Raisi, it is now becoming more difficult for Germany and Europe to publicly defend the continuation of a policy of authoritarian stability, despite the EU's apparent willingness to do so. This dilemma is best illustrated by the fact that after attending the Raisi inauguration, Mora indeed met with Hossein Amir-Abdollahian, a meeting that was not made public by him on his Twitter account whereas his consecutive meetings with leaders of several GCC countries were.

ATTACKS ON TWO TANKERS OFF OMAN'S COAST: RISING TENSIONS WITH THE WEST AND ISRAEL

The new wave of tensions has risen between Iran and the West by two attacks on tankers in the Gulf of Oman, blamed on Tehran: (1) On July 29 against the Mercer Street – managed by prominent Israeli billionaire Eyal Ofer – with a drone attack, killing two crew members (one English and one Romanian); (2) on August 4, a few Iranians stormed the oil tanker Asphalt Princess in an attempt to hijack it and bring it into Iranian territorial waters. However, due to unknown reasons the operation was aborted, perhaps as a result of Oman sending its warships toward it. Especially the former incident with the two casualties led to widespread condemnation and vows of revenge. On August 2, U.S. Secretary of State Antony Blinken [blamed](#) Iran as responsible to attack the Israel-linked tanker, vowing a "collective response" to Iran. The G-7 [released](#) a statement that said that "all available evidence clearly points to Iran." British Prime Minister Boris Johnson [reacted by stating](#) that Iran must "face up to the consequences". Meanwhile, Israeli officials reacted in a starker manner, with Prime Minister Benny Gantz [saying](#) that Israel was prepared to attack Iran: "Israel is ready to attack Iran, yes. We are at a point where we need to take military action against Iran. The world needs to take action against Iran now." On its part, Tehran rejected those accusations. Foreign Ministry spokesman Saeed Khatibzadeh [said](#) the G-7 statement made baseless accusations against Iran, calling them a "scenario" created by Israel, a country that had a long history of designing similar "plots."

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It is indeed very likely that Iran's IRGC has been behind both attacks. However, the motivation behind conducting those operations can be varied or a combination of the following:

(a) The very timing may suggest that there are elements in Iran who want to divert attention from a very delicate **AAAA**

domestic situation for the regime by provoking tensions abroad. For them, any reaction by Israel and/or the U.S., they hope, would lead to a rallying-around-the-flag effect among Iranians if war would break out. However, given widespread disillusion with the regime, such a bet to rely on Iranian nationalism may be too fragile to rely on.

(b) In recent years, in the context of Iran's "maximum resistance" policy as a reaction to Trump's "maximum pressure" campaign, similar attacks were meant to increase Iran's bargaining leverage in view of negotiations with the U.S. by putting on display Tehran's power of nuisance, while showing to Iran's Arab Persian Gulf neighbors the costs of military confrontation with Iran and their vulnerability. However, in all of those Iran had made sure not to create casualties that would have presented a case for the Trump White House to military escalate against Iran, a too costly scenario for the regime. However, this time around with Biden in the White House, Tehran's calculation may have relied on the latter's preference for engagement with Iran rather than confrontation.

(c) It may be part of Tehran's before-mentioned "escalation–de-escalation" strategy.

(d) Part of the ongoing shadow war of shipping between Iran and Israel. Israel has conducted a large series of attacks against Iranian shipping, largely unreported. In the final period of the Rouhani administration, First Vice-President Es'hagh Jahangiri had said that Israel sent fighters onto at least twelve Iranian tankers to blow them up. There are now two reasons that tensions between Tehran and Tel Aviv may intensify:

(1) The willingness of the U.S. and the EU to revive the JCPOA can be perceived as a threat among the Israeli authorities, leading to unilateral and uncoordinated actions by Israel. (2) The Raisi administration is likely invest more in the "axis of resistance" across the Middle East, which will inherently exacerbate the conflict with Israel. For instance, key anti-Israeli "resistance groups" were prominently present at Raisi's inauguration, after which they had meetings with senior IRGC-affiliated Hossein Amir-Abdollahian, who is traded to become Foreign Minister.

IRAN'S SUPER-RICH DIG A MASSIVE BUDGET HOLE



Iran's growing rich-poor divide is also weighing heavily on the state's own budget, after it was recently reported that the number of the country's high-net-worth individuals, i.e. those with financial assets exceeding \$1 million, has exploded over the past few years to reach 250,000, despite U.S. crippling sanctions and the COVID-19 pandemic. In addition, according to official figures, around 100,000 billion Toman (i.e. more than €3.3 billion) were smuggled past the tax authorities – which amounts to around 40% of the country's total tax income within a budget year. According to the chief of Iran's tax authority, Omid-Ali Parsa last month, half of that are tax evasion and the other half so-called tax avoidance. €12.3 billion of tax arrears had thus accumulated, out of which only €667 million could be realistically accessed by the tax authorities.

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Given U.S. sanctions and decimated oil revenues, Iran has tried to fill the deepening budget holes through tax income. However, many state and semi-state entities, such as the large religious foundations (*Bonyâd*), are exempt from paying taxes, while they benefit from state mega-projects worth billions of Euros per year. Moreover, half of Iran's Toman billionaires doesn't pay income taxes, according to the tax authority. Last year, the tax authority had already reported that 52% of those who had more than one billion Toman of taxable income did not possess a tax file. In May, the Parliament decided on the foundations of a capital gains tax, involving financial assets such as gold, foreign currencies, apartments, cars etc. The tax should not only benefit the state's coffers, but also contain speculative businesses, especially in the real-estate and foreign-exchange markets. However, listing objects of value has been a difficult undertaking in Iran, with e.g. in the real-estate sector the determined vacancy rates turned out to be only a small portion of the estimated total number. In fact, the sheer privileges of this regime-affiliated super-rich class (those worth \$50–\$100 million) is posing another formidable challenge for Iran's economy (in addition to

their socio-economic costs) along with U.S. sanctions and the non-approval of FATF-related bills.

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