

MEMMO

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U.S., International Sanctions Having Impact on Iran

U.S. and international sanctions imposed on Iran are beginning to have an effect on the Iranian economy, leading some Iranians to question the cost of its nuclear defiance. The U.N. Security Council is now considering further sanctions on Iran for its continuing defiance of the Council's demand to suspend its uranium enrichment program. The Security Council should quickly adopt additional diplomatic, economic and political sanctions to persuade Tehran to suspend its dangerous nuclear activities.

Current sanctions imposed on Iran, including U.S. financial restrictions and U.N. Security Council penalties, are having an impact.

- The combination of current sanctions and the threat of additional measures have led many companies to end their operations in Iran due to the increased risk and cost.
- With dozens of international banks limiting or ceasing their business with Iran due to the sanctions and potential reputational harm, the ability of Iran to conduct trade in the international market has decreased.
- Fifty-seven Iranian economists in June wrote an open letter to the regime arguing that Iran's destructive policies had caused increased poverty and raised inflation to 20 percent.



Iranians students display their discontent with Iranian President Mahmoud Ahmadinejad.

Iran's energy sector faces significant challenges due to U.S. and international sanctions.

- The threat of U.S. sanctions on companies doing business in Iran's energy sector combined with the possibility of increased U.N. sanctions has limited Iran's ability to attract much needed foreign investment.
- The lack of foreign investment is resulting in Iran's inability to meet the energy demands of its people. Last month, the Iranian government was forced to impose gasoline rationing, sparking massive protests and rioting throughout the country.
- Akbar Torjan, managing director of the state-run Pars Oil and Gas Company, on July 9 warned that the Islamic Republic's oil production capacity will fall by about five percent per year without significant new foreign investment.
- Iran will spend more money on gas and other subsidies next year than it will receive from oil and gas revenue, according to IMF projections. Iran spent \$47 billion during the 2005-2006 fiscal year

on subsidies to keep the price of gasoline, some foodstuffs and other costs artificially low to quell domestic unrest.

- Iran's energy sector is highly vulnerable to sanctions, with more than 70 percent of government revenue coming from oil and gas, which account for 80 percent of its exports.

More robust penalties could persuade the Iranian regime to suspend its nuclear pursuit.

- Further sanctions, such as an arms embargo, enforced travel bans, asset freezes and other economic sanctions, would bring more pressure to bear on the Iranian government and further stimulate internal forces already pushing the regime to alter its nuclear policies.
- Imposing more robust economic sanctions will likely push foreign companies still considering business deals with Iran to reconsider such investments.
- Restrictions on Bank Melli—Iran's largest state-owned bank and reportedly involved in Iran's nuclear program—and the Islamic Revolutionary Guard Corps, which is deeply involved in the country's weapons proliferation activities, would dramatically raise the financial pressure on the Iranian regime.

The United Nations should act quickly to impose further sanctions as Iran continues to advance its uranium enrichment program.

- Iran is making some progress in overcoming technical difficulties and now has more than 2,000 centrifuges installed at its main enrichment site in Natanz, according to recent IAEA reports. Centrifuges are machines that rotate at supersonic speeds to enrich the uranium needed to produce fuel for nuclear reactors or bombs.
- Iran is seeking to have 8,000 centrifuges running by year's end. If it is able to do so without technical difficulties, that would allow Iran to amass enough highly enriched uranium for three nuclear weapons a year.
- The Security Council has thus far failed to act since Iran missed a May deadline to comply with U.N. Resolution 1747 and suspend its uranium enrichment activities. Continued delay will only bolster Iran's hope to get away with continuing its nuclear program.

Basic Facts Summary

- Current sanctions imposed on Iran, including U.S. financial restrictions and U.N. Security Council penalties, are having an impact.
- Iran's energy sector faces significant challenges due to U.S. and international sanctions.
- More robust penalties could persuade the Iranian regime to end its nuclear pursuit.
- The United Nations must act quickly to impose further sanctions as Iran continues to advance its uranium enrichment program.