

MEMMO

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U.S., International Sanctions Having Impact on Iran

U.S. and international sanctions imposed on Iran are having a significant effect on its economy, raising the costs and risks for foreign companies to do business with the country. In late October, the United States enacted a new round of sanctions against key state-owned Iranian banks and Iran's Islamic Revolutionary Guard Corps (IRGC). Such actions have increased the intensity of the debate within Iran over the wisdom the country's nuclear program. The United States should now capitalize on these developments by rallying the international community to join a comprehensive and unified economic, diplomatic and political sanctions campaign to prevent a nuclear-armed Iran.

Sanctions on the Iranian banking sector are limiting Iran's ability to conduct international business.

- The U.S. designation of Bank Melli and Bank Mellat closes a loophole in U.S. law that allowed U.S. banks to conduct certain financial transactions involving the Iranian banks. Similar actions taken by the Treasury Department against two other Iranian banks have severely hurt those banks' ability to conduct international business.
- Scores of international banks, unwilling to risk heavy fines and the possible loss of access to U.S. financial markets, have ceased or limited transactions with Iran, including major Chinese and other Asian banks. Only three European banks are still processing transactions with Iran.
- With banks unwilling to do business with Iran, companies are finding it difficult to arrange letters of credit, a central requirement for conducting international trade.
- Even banks in Muslim nations are refusing to do business with Iran. "Most of Kuwait's banks have stopped dealing with Iranian accounts," said Abdul Majeed al-Shatti, chairman of Commercial Bank of Kuwait.



U.S. and U.N. sanctions are seeking to reduce the funds Iran has to pursue its illicit nuclear program.

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.

- 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.
- Russia's second-largest oil firm, LUKOIL, has suspended work on the Anaran oil project in Iran due to potential U.S. sanctions according to company vice president Leonid Fedun. India's Essar Group has also backed away from development of a new oil refinery in Iran because of U.S. sanctions and the threat of a loss of business from the state of Minnesota.
- Fourteen thousand Iranian workers were recently laid off from South Pars natural gas projects because foreign companies, such as Austria's OVM and France's Total, have been unwilling to complete the projects as planned, according to Jahan-e San'at, an Iranian government website that posts economic news and information.
- The U.S. action against the IRGC specifically designates nine companies owned or controlled by the Guard. These IRGC entities, which control up to 40 percent of Iran's economy, are heavily involved in Iran's energy and construction sectors and have a growing presence in Iran's financial and commercial sectors.

Sanctions have forced Iran to disguise its activities, leading other countries to weigh the risks of doing business with Iran.

- The U.S. Treasury Department's Financial Crimes Enforcement Network (FinCen) warned U.S. banks on October 16 that Iranian entities were increasingly using shell companies and other intermediaries to circumvent international sanctions and related financial community scrutiny.
- Many Iranian businesses have asked banks to remove identifying information from transactions in order to conceal their support for terrorism. Treasury Secretary Henry Paulson said Iran's banks use "a range of deceptive financial practices intended to evade even the most stringent risk management controls."
- The Financial Action Task Force (FATF), the international money-laundering watchdog, recently warned that Iran lacked proper procedures to combat terror financing and represented a "significant vulnerability" within the international financial system.
- Following the FATF's warning, finance ministers from the G-7, the top seven industrialized nations of the world, warned banks to weigh the risks of doing business with Iran.

The sanctions are increasingly causing criticism of government policies by top political leaders and financial experts.

- Earlier this month, Hasan Rowhani, who sits on two powerful cleric-run bodies, the Experts Assembly and the Expediency Council, criticized Iranian President Mahmoud Ahmadinejad for making more enemies for Iran and said that "the economic impact is felt in the life of the people."
- On Sunday, Ahmadinejad's predecessor as president, Mohammad Khatami, a reformer who remains influential, complained that Ahmadinejad claims "problems have been resolved but we see that problems remain unresolved."
- Iran's central bank has warned Ahmadinejad that the government's policies are causing inflation and will lead to higher prices. At the end of May 2007, the central bank said the money supply had increased nearly 40 percent from the same time last year.