

MEMMO

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U.S., International Sanctions Having Impact on Iran

U.S. and international sanctions on Iran are having a significant effect on its economy, raising the costs and risks for foreign companies to do business with Tehran. During the past year, the United States enacted several rounds of sanctions against key state-owned Iranian banks and Iran's Islamic Revolutionary Guard Corps (IRGC). Contrary to recent reports, these actions have been effective in driving and increasing the intensity of the debate within Iran over the wisdom of the country's nuclear program. The international community should join the United States in a comprehensive 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.

- 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. Banks in Muslim nations have begun to refuse business with Iran. Bahrain's largest lender, Ahli United Bank, recently halted dealings 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 trade. Indian fuel refiner Reliance reportedly ended its sale of gasoline to Iran after two French banks refused to offer letters of credit on the deals.
- Many companies doing business in or with Iran have been forced to use smaller banks or go through middlemen to arrange new letters of credit, adding 10 to 20 percent to their costs.
- Sanctions have limited Iran's ability to import goods from Europe, raising costs. Prices of many European goods have increased as much as 50 percent in the last four months.



Iranian President Mahmoud Ahmadinejad has come under increasing criticism concerning the state of the Iranian economy.

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

- The threat of U.S. sanctions on firms doing business in Iran's energy sector has limited Iran's ability to attract much-needed foreign investment. The lack of investment has led to a dramatic decrease in the amount of oil Iran is able to export. Today, Iran pumps 40 percent less oil than it did 25 years ago, even though its population has doubled.
- Vitol, the Swiss oil giant and largest supplier of gasoline to Iran, reportedly ended its contract with the country after suffering considerable losses in 2007. Due to a lack of investment Iran has been

unable to develop gasoline refineries, resulting in the need for Iran to import more than 40 percent of its gasoline and impose gas-rationing on its citizens.

- Fourteen thousand Iranian workers were laid off last year from South Pars natural gas projects because foreign companies, such as Austria's OMV 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, which control 30 percent of Iran's economy, specifically designates nine companies owned or controlled by the Guard. These IRGC entities are heavily involved in Iran's energy and construction 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 in October 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 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. In Dubai, a key Iranian business hub, several national banks have reportedly slowed the issue of letters of credit for trade with Iran as a result of U.S. and U.N. Security Council sanctions.

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

- As inflation has skyrocketed, a number of influential voices have emerged, criticizing the president for his mismanagement of the economy. Akbar Hashemi Rafsanjani, the former Iranian president, warned Ahmadinejad during a recent speech to "take this issue (inflation) very seriously... It should be dealt with using economic expertise and not with slogans and political games."
- Ahmadinejad's predecessor, Mohammad Khatami, a reformer who remains influential, also accused Ahmadinejad of "lies" meant to distort unemployment and inflation figures. "Unfortunately, it has become customary that the real issues are concealed and portrayed in some other ways," Khatami said.
- Iran's Supreme Leader Ali Khamenei in a rare rebuke formally overruled President Ahmadinejad in a budget dispute in mid-January. Pressure from within Iran's ruling elite has been mounting on Khamenei to rein in Ahmadinejad, according to analysts cited by the *Los Angeles Times*.
- Iran's central bank has warned Ahmadinejad that the government's policies are causing inflation and will lead to higher prices. Iran's officially stated inflation rate is 19 percent, but is believed to be much higher.