

# MEMMO

February 8, 2008

## More Sanctions Needed as Iran Advances Uranium Enrichment, Missile Technology

**Tehran reportedly is now testing advanced centrifuges and rapidly developing more sophisticated ballistic missile technology. Sanctions on Iran are hurting its economy and heightening domestic criticism of the mullahs' regime. This sanctions effort, however, could be more effective in bringing Iran to suspend its uranium enrichment program if U.S. law were fully implemented by imposing penalties on foreign firms operating in Iran.**

Iran is advancing its uranium enrichment capabilities and ballistic missile program.

- Iran is reportedly testing at its Natanz nuclear complex an advanced P-2 centrifuge, which is capable of enriching uranium—the key fuel for nuclear weapons—at two to three times the speed of older models.
- Director of National Intelligence Michael McConnell said in recent testimony to the Senate Intelligence Committee that Iran continues to make progress in its ability to enrich uranium and could technically be capable of producing enough fissile material for a weapon in less than two years.
- McConnell also made clear that U.S. intelligence does not know whether Iran has restarted its nuclear weaponization program, saying: “If Iran’s nuclear weapons design program has already been reactivated or will be reactivated, it will be a closely guarded secret, in an attempt to keep us from being aware of its true status.”
- Iran also continues its effort to perfect ballistic missiles that can reach as far as North Africa and Europe. On Feb. 4, Iran tested a missile purported to be capable of carrying satellites into space, a move that drew criticism from Russian Deputy Foreign Minister Alexander Losyukov, who said that such a test could “make one suspect that Iran could possibly create nuclear arms.”



**Iran tested a purported space-related rocket using technology that could be used to fire long-range ballistic missiles.**

U.S. and international sanctions on Iran are having a significant effect on its economy.

- Sanctions on the Iranian banking sector are limiting Iran's ability to conduct international business. With most large international banks refusing to do business with Iran, they have been forced to use smaller banks or go through middlemen to conduct trade, adding 10 to 20 percent to their costs.
- Sanctions have dramatically affected Iran's energy sector, curtailing new investments and making Iran's procurement of gasoline more difficult. Iran has been forced to use the spot market to buy gasoline—at increased cost—after French banks refused to provide letters of credit for deals.
- The sanctions are increasingly causing criticism of government policies by top political leaders and financial experts. With parliamentary elections scheduled for March, more than 3,000 reformist candidates were disqualified from the election in part due to fear the failing economy and international isolation would lead to a vote against the hard-line Ahmadinejad government.

Further enforcement of current sanctions will increase the measures' effectiveness.

- While reports indicate that the U.N. Security Council has agreed to a text of a new resolution on Iran, the Security Council has not passed a resolution since Iran missed a May 2007 deadline to comply with previous resolutions requiring a suspension of uranium enrichment activities. Continued delay will only bolster Iran's view that it can continue its illicit activity with impunity.
- Current Security Council sanctions are not being fully implemented. Some international companies continue to do business with Bank Sepah, despite Resolution 1747's requirement to freeze the bank's assets. Countries continue to import weapons from Iran despite a ban on such activity.
- While a number of international companies have backed away from investing in Iran, several have perceived the lull in enforcing sanctions as a green light to pursue investment in Iran. Some Chinese banks, for example, have reportedly resumed deals that were suspended with the imposition of U.S. and U.N. sanctions, and the Russian oil giant Gazprom recently announced it intends to expand energy cooperation with Iran.

The United States could increase the pressure on Iran by implementing penalties on foreign companies violating U.S. sanctions on Iran.

- The United States should sanction foreign companies investing more than \$20 million in Iran's energy sector in violation of the Iran Sanctions Act. Several states have already passed legislation to divest their pension funds from these companies.
- The United States should sanction foreign banks who continue to conduct transactions with the four state-owned Iranian banks subject to U.S. or U.N. sanctions. Until the sanctions are implemented, many foreign banks will continue to conduct business as usual.
- The United States should sanction foreign entities that continue to do business with the Iranian Islamic Revolutionary Guard Corps (IRGC), which controls more than 30 percent of the Iranian economy. Five IRGC patrol boats recently threatened U.S. naval vessels traveling through the Straits of Hormuz in international waters.