

# MEMMO

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## Why Tougher Sanctions Are Vital in Preventing Nuclear Iran

**The United States has courageously taken the lead in imposing economic sanctions on Iran. U.S. measures taken to date—including new steps announced last week—combined with U.N.-backed multilateral actions have helped to squeeze Iran's regime. However, Tehran aggressively continues to pursue a nuclear weapons capability that some experts say could reach fruition by late 2009. Given this dangerous timeline, the Bush administration should continue to ratchet up pressure on a defiant Iran even during this period of transition. One important step would be to lead an international diplomatic effort to ban refined petroleum sales to Iran, a move supported by President-elect Barack Obama.**

The United States has played a leading role in international efforts to sanction Iran.

- The Treasury Department on Nov. 6 revoked Iran's so-called "U-turn" license, a move effectively barring all Iranian financial institutions from doing business in dollars.
- Last month, Treasury sanctioned the Export Development Bank of Iran, a key state-owned institution providing support to Iran's weapons program.
- During the past two years, Treasury designated four Iranian state-owned banks and designated the Islamic Revolutionary Guard Corps (IRGC) as a weapons proliferator.
- The United States has aggressively discouraged foreign companies from investing in Iran's energy sector, threatening sanctions under the Iran Sanctions Act.
- The Treasury Department's Financial Crimes Enforcement Network has warned financial institutions to exercise vigilance in dealing with the Central Bank of Iran because of its assistance to Iranian proliferation and terrorist-supporting entities, including sanctioned Iranian banks
- The Treasury Department has enacted sanctions against the Islamic Republic of Iran Shipping Lines (IRISL) and its 18 affiliated companies for aiding the regime's rogue nuclear activities.



**Sanctioning the Central Bank of Iran would be an important step in increasing pressure on Iran to end its nuclear program.**

Iran's ability to conduct business abroad and to attract investment for its energy sector has been hampered by American and international actions.

- Sanctions have put a heavy burden on the Iranian economy, which is already undermined by corruption and mismanagement. The inflation rate is officially estimated at above 30 percent and more than one in three Iranians aged 19 to 29 is unemployed. Many more are underemployed.
- 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.
- With most large foreign banks refusing to do business with Iran, the regime has been forced to use smaller banks or go through middlemen to conduct trade, adding 10 to 20 percent to its costs.
- The threat of sanctions has dramatically curtailed new foreign investment in Iran's energy sector—Iran's refining sector alone needs more than \$25 billion in upgrades to fulfill its domestic needs. This lack of investment has also led to a striking decrease in the amount of oil Iran produces.
- The sanctions have led to increased criticism of government policies by financial experts and prominent political figures in Iran. Iran's former nuclear negotiators Hassan Rowhani and Ali Larijani, former parliamentary speaker Mehdi Karroubi and former Presidents Rafsanjani and Khatami have all criticized the current Iranian regime for mismanaging the economy.
- Bazaar merchants—an influential political class in Iran—recently went on strike in cities throughout Iran to protest a new sales tax on the sale of some jewelry items, forcing the government to delay its imposition.

The United States—in conjunction with international efforts—has a wide array of additional sanctions it can use to prevent a nuclear-armed Iran.

- The United States could immediately sanction the Central Bank of Iran as well as banks that continue to conduct transactions with banks already subject to U.S. sanctions. Such steps would have a crippling impact on Iran's continued ability to operate in the international financial sector.
- The United States could immediately sanction any foreign entity continuing to do business with the IRGC, the IRISL or any other entity subject to U.S. sanctions.
- The United States should implement current law and sanction foreign energy companies investing more than \$20 million in Iran's energy sector.
- Sanctioning one such company would have a deterrent impact on other firms looking at potential investments in Iran and demonstrate to the regime that it faces a very bleak economic future if it doesn't change course.
- The United States could also lead an international diplomatic effort to prohibit the export to Iran of all refined petroleum products. With Iran forced to import 40 percent of its gasoline, limiting the country's access to such products would have an immediate and devastating economic effect.
- President-elect Barack Obama backed such a move during the campaign, saying in the Oct. 7 debate, "If we can prevent [Iran] from importing the gasoline that they need and the refined petroleum products, that starts changing their cost-benefit analysis. That starts putting the squeeze on them."