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MEMO

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Implementing Unprecedented Sanctions Could Prevent Nuclear Iran

Congress' passage of the most comprehensive and toughest Iran sanctions legislation to date will—if implemented promptly and aggressively—dramatically increase the pressure on the Iranian regime to halt its illicit pursuit of nuclear weapons. The Comprehensive Iran Sanctions, Accountability, and Divestment Act, passed by the Senate 99 to 0 and by the House 408-8-1, aims to stifle Iran's energy sector, restrict Tehran's ability to conduct international financial transactions, and hamper its ability to obtain components for its nuclear and missile programs. Quick implementation and strong enforcement by the president—who is expected to sign the bill into law tonight—and his administration hold the last best hope of persuading Iran to suspend its quest for nuclear weapons through political, economic, and diplomatic means.

New U.S. sanctions on Iran—if fully implemented—will severely undercut its energy sector, reduce investments and raise costs for the regime.

- The new sanctions target foreign firms—including insurance, financing and shipping companies—that assist Iran in importing refined petroleum and are already having an impact.
- France's Total, the last major western fuel trader dealing with Iran, said it would stop providing refined petroleum to Tehran, while South Korea's GS Engineering & Construction said it has called off a $1.2 billion gas project in Iran.
- Lloyd's of London also announced that it will not insure or reinsure petroleum shipments going into Iran.

Total said it would stop providing refined petroleum to Iran after Congress past unprecedented sanctions.

- Iran's goal to counteract sanctions by upgrading its domestic refineries is already years behind schedule and will be furthered impeded by new sanctions on companies assisting Iran in maintaining or expanding its domestic refining capacity.
- Even if Iran can find companies willing to risk sanctions by supplying it with gasoline, the regime will be forced to pay these companies much higher fees. Prior to the passage of the new sanctions, Iran was paying as much as a 45 percent premium on gasoline imports.
- Parent companies will now be liable to penalties if their subsidiaries engage in a sanctionable activity in Iran's energy sector. Companies such as Honeywell own foreign subsidiaries conducting business in Iran that Honeywell itself is barred from conducting.
- The closing of the loophole, which allowed companies to provide Iran with goods, services and technology for its energy sector, should further hasten Iran's crude oil production decline. Iran's maturing oilfields require advanced technologies simply to maintain current output.

- According to the international forecasting firm *Global Insight,* the impact of the new sanctions "will be seen through increased trading costs and delays in contract fulfillment and trade deals, as well as a further decreased technology inflow, while over the longer term evidence will be manifest in crumbling infrastructure and inadequate capital stock."

Financial restrictions imposed by the legislation will limit Iran's access to the international financial system.

- New regulations will require U.S. banks to restrict ties with foreign banks conducting any business with Iran's Islamic Revolutionary Guard Corps (IRGC) and with any Iranian bank designated by the United States as facilitating Iran's illicit nuclear program or its support for terrorism.
- International banks must clear all of their international dollar transactions—a very substantial portion of their business—through the U.S. banking system. As a result of the new regulations, these banks will be forced to choose between doing business with the United States or with Iran.
- Many international banks previously ended relations with Iran as a result of U.S. efforts. The new regulations are likely to force out most of the remaining players, leaving Iran with the prospect of a collapse of its financial system, and certainly without the ability to attract foreign investment.
- The IRGC, by itself, accounts for as much as 50 percent of the Iranian economy and is involved in such major sectors as energy development, construction, telecommunications, transportation, and Iran's nuclear program. If international banks no longer handle its financial transactions, both it and the Iranian economy will be severely impacted.

Iran's access to components for its nuclear and missile programs will be further hampered by new sanctions.

- For the first time, the new sanctions address the problem of countries that allow their territory to be used as diversion points to send illicit goods to Iran. The director of national intelligence is now required to identify such countries and work with them to improve their export control regulations.
- Countries that fail to improve their export control systems and continue to allow sensitive technologies to be diverted to Iran will be subject to new restrictions and licensing requirments before they can receive U.S. exports. These regulations will help to prevent sensitive technologies from benefitting Iran's nuclear program.
- The legislation also bars the president from issuing licenses for the export of U.S. civilian nuclear technology to any nation helping Iran develop a nuclear weapons capability. Countries like Russia and the UAE will now have additional incentive to actively prevent the transfer of nuclear and missile components to Iran.

If fully implemented, the legislation holds the last best hope to peacefully persuade Iran to end its illicit nuclear program.

- The president should quickly and aggressively implement the law, which provides him with new mechanisms to dramatically increase pressure on Iran and companies that continue to work with it.
- The law mandates that the most critical provisions of the bill be implemented within 90 days of the president's signing of the legislation. Congress must ensure that the administration meets this timetable and issues the necessary regulations and reports as required by the law.
- Failure to implement these sanctions will leave policymakers only with two options: accepting a nuclear-armed Iran or using military action to prevent Iran from acquiring a nuclear weapons capability. Sanctions combined with tough diplomacy provide the best chance to prevent having to face such a stark choice.