

MEMMO

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New U.S. Sanctions Isolating Defiant Iran

Just two weeks after being signed into law, the Comprehensive Iran Sanctions, Accountability and Divestment Act (CISADA)—the toughest Iran sanctions legislation to date—is already having a significant impact. Combined with the latest round of U.N. Security Council sanctions, the new U.S. law is convincing many foreign companies to sever ties with the Iranian regime—although some continue to defy the international community and are stepping up business with Iran. President Obama must strictly enforce and implement CISADA in order to dramatically increase the pressure on the Iranian regime and maximize the chance of persuading Iran to suspend its nuclear program.

Many companies have started scaling back their business with Iran in response to the new U.S. sanctions.

- Just days after Congress passed the bill, France's Total, the last major Western fuel trader dealing with Iran, announced that it would stop providing refined petroleum to Tehran.
- Both BP and Royal Dutch Shell have suspended sales of jet fuel to Iran Air to comply with the new U.S. sanctions. Tehran is now having trouble refueling its airplanes at a number of major European airports.
- Lloyd's of London—a major insurance market that provides eight to 10 percent of the global maritime insurance—announced that it would restrict insurance for any vessels shipping petroleum to Iran.
- Lloyd's General Counsel Sean McGovern made clear that the company is choosing to do business with the United States rather than Iran, saying, "The U.S. is an important market for Lloyd's and, in recognition of this, the market will not insure or reinsure refined petroleum going into Iran."
- The South Korean firm GS Engineering & Construction announced that it has suspended its \$1.89 billion project to construct a gas sweetening plant at Iran's South Pars natural gas field. Without the facility, Iran will have significant trouble tapping its abundant gas reserves.
- These moves since the legislation was passed and signed into law build on decisions by leading companies to limit or cut ties with Iran taken during the past year. The firms include: energy companies LUKOIL, Reliance, Vitol, Trafigura, ENI, Statoil and Repsol; insurers Allianz and Munich Re; and accounting firms PricewaterhouseCoopers and Ernst & Young.



New sanctions have spurred a number of major energy firms to announce they will stop doing business with Iran.

The new U.S. sanctions are increasing Iran's international isolation and impairing Iran's ability to conduct regular economic activity.

- The International Energy Agency (IEA) projected that the new U.S. and European sanctions will “have a material impact” on Iran's energy sector and are “reduc[ing] its sources of fuel.”
- While Iran has been able to offset the withdrawal of Western firms by building stronger ties to Chinese and Turkish companies, “the limited number of traders willing to supply Iran ... is driving up the cost of fuel [and] casting doubt” on Iran's ability to meet its needs, the IEA said.
- Iran's maturing oil fields require advanced technologies simply to maintain current output. Iran has encountered difficulties in sourcing key components and technologies needed to increase production and efficiency.
- The IEA said that the Iranian government's plans to combat international sanctions by increasing its domestic production are “unrealistic” without access to this advanced technology.

Quick implementation and strong enforcement of the law hold the last best hope of persuading Iran to suspend its quest for nuclear weapons through political, economic and diplomatic means.

- President Obama should quickly and aggressively implement the law, which provides him with new mechanisms to 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.
- Companies continuing to provide Iran with refined petroleum must be sanctioned, including Turkish refiner Tupras and Chinese traders, Chinaoil and Unipet.
- Any Russian companies violating the sanctions in the wake of the Russian energy minister's announcement of continuing cooperation with Iran in the oil, natural gas and petrochemical industries should be sanctioned as well.
- Failure to implement these sanctions will leave policymakers with only two options: accepting a nuclear-armed Iran or using military action to stop it. Sanctions combined with tough diplomacy provide the best chance to prevent such a stark choice.