

MEMMO

Sept. 16, 2010

Iran Increasingly Isolated but Remains Defiant

Recently stepped-up sanctions are shaking the Iranian economy with accompanying signs of fissures in the Iranian government and society. Nonetheless, Tehran continues to advance its nuclear program in defiance of the international community. The latest International Atomic Energy Agency (IAEA) report raises serious concerns about Iran's increased ability to enrich uranium and the agency's declining ability to monitor Tehran's activities. The United States and the international community must further press Iran to change course before it achieves nuclear weapons capability.

Iran continues to make advances in its nuclear program and thwart international efforts to monitor the program, the new IAEA report says.

- Iran continues to stockpile low-enriched uranium and now has enough material—if further enriched—for three nuclear bombs. This represents almost a two-fold increase in Iran's stockpile during the past year.
- Iran is increasing the efficiency of its centrifuges and has overcome some technical hurdles in the enrichment process.
- Iran continues to enrich between 253 and 264 pounds of uranium each month; roughly 2,000 pounds of low-enriched uranium is needed to make the fuel for a nuclear bomb.
- Between February and August, Iran enriched nearly 50 pounds of uranium to a 20 percent level, which represents 85 percent of the work needed to produce fuel for a nuclear weapon. In the past six months, Iran's increased efficiency in this process demonstrates its further mastery of the enrichment cycle.
- The IAEA also details Tehran's systematic efforts to obstruct the agency's ability to monitor its nuclear program. Amid this lack of cooperation, the agency is concerned about the existence of a military component to the program, including the possible "development of a nuclear payload for a missile."
- Iran has barred two additional IAEA investigators—bringing to 44 the number of inspectors barred by Tehran. Iran has also refused to provide the IAEA with access to its heavy water reactor at Arak, resisted IAEA efforts to investigate the enrichment facility near Qom, and failed to provide the agency with information about new enrichment facilities Tehran intends to build.



Sanctions are increasingly isolating Iran from the world economy. South Korea temporarily suspended all operations of the Asian branch of Iran's Bank Mellat.

The international community has taken a strong stance against Iran's nuclear program and these efforts are beginning to have an impact.

- In the past two weeks, South Korea and Japan joined a growing list of countries, including those of the EU, Canada and Australia, that have banned new investment in Iran and tightened restrictions on financial transactions with Tehran. Significantly, South Korea temporarily suspended all operations of the Asian branch of Iran's Bank Mellat.
- At the beginning of September, UAE banking executives said most of their banks had stopped all money transfers to Iran "in all currencies," according to a report by Agence France Presse.
- The U.S. Treasury Department continued its campaign against illicit Iranian financial activity by blacklisting the Iranian-owned and German-based European-Iranian Trade Bank AG (EIH). Treasury said EIH is "one of Iran's few remaining access points to the European financial system."
- In August, Europe's fourth-largest oil refiner, Turkish company Tupras, announced it would no longer sell fuel products to Iran in light of U.S. and EU sanctions. In June, Tupras was responsible for more than half of Iran's gasoline imports.
- The International Energy Agency said sanctions have forced Iran to pay a 25 percent premium for petroleum products because many companies are refusing to sell to Iran. Tehran's gasoline imports for August were down by almost 90 percent from a year ago, according to Reuters.
- Iran also is facing difficulties selling crude oil because banks are refusing to issue letters of credit, shipping companies are refusing to send tankers to Iranian oil terminals, and insurance companies are refusing to insure the cargos, according to a report in *The Financial Times*.
- The increasing concern among the elite over the impact of sanctions is producing tensions within the conservative establishment. Former president and powerful cleric Akbar Hashemi Rafsanjani urged the country's leadership to "take the sanctions seriously." Without mentioning him by name, Rafsanjani criticized Iranian President Mahmoud Ahmadinejad for downplaying the sanctions and expressed doubt that Iran is using its abilities "in a proper way" to overcome sanctions.

The United States and its allies must further pressure Iran to suspend its nuclear enrichment program and cooperate with the IAEA.

- The goal of U.S. policy is to prevent Iran from acquiring a nuclear weapons capability, and the goal of sanctions is to change Iran's calculus so that the leadership will agree to a suspension of the program. While the international sanctions are clearly having an impact on the Iranian economy, the U.S. cannot rest until Iran's nuclear program is halted.
- The United States and the international community must press Iran to fully cooperate with IAEA investigators, grant complete access to all nuclear-related facilities, and provide detailed answers to the IAEA's concerns about the military nature of the program.
- The Obama administration must fully enforce U.S. sanctions laws and penalize companies and individuals investing in Iran's energy sector, selling Iran refined petroleum, aiding Iran's Islamic Revolutionary Guard Corps, or facilitating Tehran's illicit financial activity.
- Failure to enforce these sanctions will leave policymakers with a difficult choice between two tragic options: accepting a nuclear-armed Iran or using military action to prevent Iran from acquiring a nuclear weapons capability. Crippling sanctions combined with tough diplomacy provide the best chance to prevent such a stark choice.