America Must Implement Tough Iran Sanctions Now

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, overwhelmingly passed by Congress in June 2010, 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 administration hold the last best hope of persuading Iran to suspend its quest for nuclear weapons through political, economic, and diplomatic means.

New Sanctions Can Have an Impact

The new sanctions passed by Congress target foreign firms—including insurance, financing and shipping companies—that assist Iran in importing refined petroleum. Indeed, the mere threat of sanctions has led most major international fuel traders to exit the Iranian market.

Iranian President Mahmoud Ahmadinejad has called for a world without the United States and Israel.

Financial restrictions imposed by the legislation limit Iran's access to the international financial system. New regulations 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 now clear all of their international dollar transactions—a very substantial portion of their business—through the U.S. banking system. As a s result, 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.

Similarly, 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.

Anticipation of New Sanctions Led Firms to Cut Iran Ties

Even before passage of the Iran sanctions, major Western firms began pulling out of Iran because their U.S. operations or connections to the U.S. financial system would be at risk if they

continued their Iranian operations. Glencore, LUKOIL, Reliance, Vitol and Trafigura are among firms that previously ended sales of refined petroleum to Iran.

Numerous energy firms—including ENI, Statoil, and Repsol—also announced that they would not go forward with new investments in Iran. Similarly, major international insurance and reinsurance companies began ending their Iranian business last year given the potential risks of losing access to the U.S. market. Allianz—Europe's largest primary insurer by gross premiums—and German reinsurance company Munich Re announced in February 2010 that they were suspending ties with Iran.

New Sanctions Already Having an Impact

Just days after Congress passed the new sanctions bill in the summer of 2010, Iran's international isolation grew even further. 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 also 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 8 to 10 percent of the global maritime insurance—has announced that it would restrict insurance for any vessels shipping petroleum to Iran. Likewise, 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 untapped gas production capacity.

President Obama Must Now Fully and Aggressively Implement the New Law

If fully implemented, the new sanctions legislation holds the last best hope to peacefully persuade Iran to end its illicit nuclear program. President Obama should quickly, fully and aggressively implement the law, which provides him with new mechanisms to increase pressure on Iran and companies that continue to work with it.

Companies continuing to provide Iran with refined petroleum should be sanctioned, including Turkish refiner Tupras and Chinese traders, Chinaoil and Unipec. 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 only with two tragic options: accepting a nuclear-armed Iran or using military action to stop it. Sanctions combined with tough diplomacy provide the best chance to prevent having to face such a stark choice.