

# One Year Post-JCPOA, Not Post-Sanctions

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## ABOUT THE AUTHORS



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Brief Analysis

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**The United States should not let Iran define effective sanctions relief at the expense of continued implementation of nonnuclear sanctions.**

**J**uly 14 will mark one year since the announcement of the Joint Comprehensive Plan of Action (JCPOA), the nuclear agreement with Iran. This article is part of a [series of PolicyWatches](http://www.washingtoninstitute.org/policy-analysis/view/twi-series-on-the-jcpoa-at-one-year) (<http://www.washingtoninstitute.org/policy-analysis/view/twi-series-on-the-jcpoa-at-one-year>) assessing how the deal has affected various U.S. interests.

On Tuesday, U.S. Treasury Department officials were scheduled to meet with the Central Bank of Iran and global banks based in London to discuss how to navigate the ongoing restrictions on business with Iran. Within weeks of implementation of the nuclear agreement in January 2016, Iranian officials called on Washington to reassure European banks that they could reengage with Iran. On February 4, Iranian foreign minister Mohammad Javad Zarif insisted as follows to a Chatham House audience in London: "We need clear, precise assurances that banks can do business with Iran," he said. "I hope that is fast coming because if not it would be a problem of implementation."

As the Obama administration works to cement its seminal foreign policy achievement, the pace of sanctions against Iran under remaining authorities has slowed. Despite assurances that the United States will "vigorously press sanctions against Iranian activities outside of the Joint Comprehensive Plan of Action including those related to Iran's support for terrorism, regional destabilization, human rights abuses, and ballistic missile program," Washington has acted only three times since Implementation Day, on January 16, and a total of six times over the last year. Although Iran has not moderated its provocative behavior in the last year, there have been only roughly twenty new designations of Iran-affiliated individuals, compared to "more than a hundred" designations during the eighteen-month period of the interim agreement.

## Sanctions Post-JCPOA

The most notable sanctions action this year came just twenty-four hours after implementation of the Iran deal on January 16. Long anticipated in response to Iran's October 2015 missile tests, the sanctions targeted a procurement network acting on behalf of Iran's ballistic missile program as well as senior Iranian officials involved in ballistic missile-related coordination with North Korea. The action, which names eleven individuals and entities, both exposed a network acting clandestinely to purchase dual-use items in support of Iran's carbon fiber production plan as well as highlighted Iran's persistent cooperation with rogue proliferators. These sanctions were initially leaked in late December when a prenotification of the action sent to Congress was made public. The administration subsequently pulled back the prenotification, claiming a technical holdup, but not before Iranian officials voiced their objections to the new sanctions. It later became apparent that the delay in the action was tied to the release of several Americans being held prisoner in Iran. The event, however, highlighted the difficulties facing policymakers in navigating U.S.-Iran relations post-JCPOA.

Later in March, following two successive days of Iranian missile tests early in the month, the Treasury Department designated two Iran-based entities involved in Iran's ballistic missile program. The missile tests proved to be the first test of United Nations Security Council Resolution 2231, which had endorsed the JCPOA and, on Implementation Day, rescinded six earlier resolutions aimed at restricting Iran's nuclear and ballistic missile program. Relevant language in Resolution 2231 "called on Iran" to refrain from testing missiles "designed to be capable" of carrying a nuclear warhead. Previous language in UN Security Council Resolution 1929 stated that Iran "shall not" test missiles capable of carrying a nuclear payload. Iran claimed that the missiles were a source of "legitimate defense" and not designed to carry nuclear weapons. France and Britain joined the United States in penning a strongly worded letter at the UN, but neither the European Union nor the UN took new sanctions actions following the tests.

At the same time, the Treasury announced new sanctions on companies supporting Mahan Air, which was designated in 2011 under terrorism authorities for acting on behalf of the Qods Force of Iran's Islamic Revolutionary Guard Corps (IRGC). In the press release, the Treasury detailed Mahan's deceptive financial practices, including the use of "complicated transactions through a series of intermediary companies and individuals...to negotiate sales contracts, and these companies deliberately fail to disclose Mahan Air as the end-user of the purchased equipment." Other designations undertaken since the signing of the deal exclusively targeted Iran's chief terrorist proxy, Hezbollah, sanctioning unmanned aerial vehicle procurement networks, commercial investments, and officials supporting Syria's Assad regime.

## Iranian and European Responses

Iran has voiced its objection to new designations, especially those targeting its missile program, and continued to claim that the United States has not followed through on commitments to lift sanctions or in good faith ensure that Iran can resume economic ties with Europe in particular. Speaking at a joint press conference with EU foreign policy chief Federica Mogherini in April, Iranian foreign minister Zarif said that "Iran and the EU will put pressure on the United States to facilitate the cooperation of non-American banks with Iran." He continued: "It's essential that the other side, especially the United States, fulfill its commitments not on paper but in practice and remove the obstacles especially in banking sector."

While Iranian officials may speak clearly of joint Iran-EU efforts, European officials are more conflicted: they simultaneously share the belief that the United States can provide better clarity on navigating remaining restrictions faced by their banks while expressing frustration that U.S. officials continue to push European banks to engage in business that Washington has deemed too risky for American banks. They acknowledge that the scope of the deal was limited to the nuclear issue -- and note that EU sanctions on Iranian human rights abuses still stand -- while pointing to remaining U.S. "extraterritorial" secondary sanctions as a key obstacle for European banks.

Allowing Iran to continue defining effective sanctions relief solely in terms of foreign bank confidence discounts Iranian responsibility for illicit finance risks that it continues to perpetuate (see PolicyWatch 2635, "[Little Change Expected in Upcoming FATF Statement on Iran](http://www.washingtoninstitute.org/policy-analysis/view/little-change-expected-in-upcoming-fatf-statement-on-iran)" (<http://www.washingtoninstitute.org/policy-analysis/view/little-change-expected-in-upcoming-fatf-statement-on-iran>)). Iran's failure to bring its financial sector in line with current international regulatory standards, its lack of transparency, and its traditional reliance on deceptive practices to conduct both licit and illicit financial activity represent significant deterrents to foreign financial institutions and other commercial partners.

U.S. officials have recently pointed to other indicators that Iran is benefiting from the suspension of nuclear-related sanctions: namely, Iran's increasing access to and ability to move foreign reserves, as well as the uptick in Iranian oil sales. Indeed, Iran has succeeded in reestablishing some banking relationships in Europe -- in June, Central Bank governor Valiollah Seif announced two hundred small banks had reestablished correspondent banking relationships with Iran. Nonetheless, non-European banks continue struggling to make the requested Euro-denominated payments to Iran. This is so not because of problems with specific currency conversions (see PolicyWatch 2601, "[Potential U.S. Clarification of Financial Sanctions Regulations](http://www.washingtoninstitute.org/policy-analysis/view/potential-u.s.-clarification-of-financial-sanctions-regulations)" (<http://www.washingtoninstitute.org/policy-analysis/view/potential-u.s.-clarification-of-financial-sanctions-regulations>)) but because major European banks are not providing Euro-clearing services other than for their direct clients, according to banking-sector contacts. The risk in pointing to Iranian banking relationships, access to assets, or oil sales as an indicator of U.S. compliance with its JCPOA obligations is that it assumes that clarity on U.S. sanctions is the only factor influencing the outcome. Rather, as the reluctance of European banks to provide euros to non-European banks indicates, financial institutions have not yet established confidence in third-party due diligence on Iran-related transactions.

## Policy Recommendations

The post-JCPOA bifurcated sanctions approach -- promotion of relief on the one hand and continued implementation of the remaining sanctions on the other -- will continue to pose a challenge to policymakers. Articulating and implementing a clear post-JCPOA sanctions strategy including targeting of Iranian support for terrorism, ballistic missile procurement, and human rights abuses would not only demonstrate a continued focus on sanctioning expressly illicit conduct but also mitigate some of the uncertainty facing financial institutions. Such actions could further provide clarity for banks attempting to navigate a restricted environment. The January ballistic missile and March Mahan Air designations are good examples of how targeted sanctions expose and disrupt Iran's use of front companies to obscure end users; identify previously nonpublic affiliations; and provide typologies of Iranian illicit financial activity. Future actions could include additional identifications of IRGC-affiliated commercial entities. Finally, additional targeted measures under existing executive authorities -- especially against ballistic missile-related procurement networks -- could help forestall momentum on Capitol Hill for new statutory sanctions, which could pose a greater threat to the staying power of the JCPOA.

Avoiding new actions for fear of undermining the JCPOA is more likely to embolden Iran -- not only to ask for additional concessions but also in its belief that its objections can deter U.S. actions regardless of its other behavior. In this sense, a tough U.S. stance on additional sanctions offers at least as good prospects for sustaining the JCPOA as does an accommodating approach, without discounting valuable tools to counter Iran's ongoing malign activity.

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