Actions of U.S. Allies Crucial to Strengthening Impact of Sanctions on Iran

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Brief Analysis

The new financial sanctions against Iran are significant, although key U.S. allies will need to do more to potentially impact the regime's nuclear program decisionmaking.

The latest round of Iran sanctions announced by the United States, Britain, and Canada marks the beginning of a new diplomatic push to internationally broaden and deepen the Islamic Republic's isolation. As part of these efforts, similar actions by like-minded, strategically important allies will be needed in order to alter the regime's decisionmaking with respect to its nuclear program.

311 Action

Against the backdrop of a foiled assassination plot targeting the Saudi ambassador on U.S. soil, new International Atomic Energy Agency details regarding the military dimensions of Iran's nuclear program, and Israeli angst that the window for military action may be closing, Treasury Secretary Tim Geithner and Secretary of State Hillary Clinton announced a new round of U.S. sanctions on November 21. Most significantly, the measures included a "311 action" naming Iran as a country of "primary money-laundering concern." The documentation supporting the action details a wide range of illicit and deceptive conduct, highlighting the role that the Iranian financial industry and Central Bank play in supporting terrorism, facilitating proliferation, and executing complex schemes to cover the regime's tracks. On the same day, both Canada and Britain announced similar actions, significantly strengthening their sanctions by barring their financial sectors from any unlicensed transactions with Iran.

Section 311 of the USA PATRIOT Act, used a little over a dozen times since 2001, gives the Treasury Department broad authority to address and bring pressure on jurisdictions and institutions that pose a threat to U.S. interests, with implications both at home and abroad. For U.S. financial institutions, a 311 action might require additional measures to assist in identifying account information. It could also obligate them to prohibit or impose conditions on the opening or maintaining of foreign-correspondent or payable-through accounts in the United States. Specific requirements are developed case by case as part of the rulemaking process, which begins when Treasury's Financial Crimes Enforcement Network (FinCEN) formally files a Notice of Proposed Rulemaking (NPRM).

Although these requirements apply only to U.S. institutions, the impact against a 311 target may be far reaching. For instance, in February, Treasury used Section 311 against the Lebanese Canadian Bank (LCB) for providing financial services to an international narcotics and money laundering network that benefited Hizballah. Only a month later, Lebanese banking authorities announced that LCB would be sold -- a decision that was apparently taken to preserve some of the institution's value and protect the reputation of the wider Lebanese banking sector.

The new FinCEN NPRM for Iran includes a special provision requiring U.S. financial institutions to implement additional due-diligence measures aimed at preventing Iranian banks from gaining improper indirect access to U.S. correspondent accounts. In practice, U.S. financial institutions -- which are already prohibited from doing business with Iranian financial institutions -- will likely need to review and tighten existing controls governing the use of third-country banks for permitted money transfers, which include noncommercial family remittances and licensed exports of agricultural commodities, medicine, and medical devices.

A Platform for Diplomacy

Looking beyond the requirements on the U.S. financial industry, the 311 action against Iran, like the LCB case, has provided a basis for Washington to push out a strong, detailed narrative of the risks assumed by those countries and institutions still commercially engaged with the target -- in this case Iran and its Central Bank. Challenging others to follow suit, Secretary Geithner put it plainly: "If you are a financial institution anywhere in the world and you engage in any transaction involving Iran's Central Bank or any other Iranian bank...you are at risk of supporting Iran's...pursuit of nuclear weapons, [its] support for terrorism, and its efforts to deceive responsible financial institutions and to evade sanctions. Any and every financial transaction with Iran poses a grave risk of supporting those activities." Put another way, America's friends and partners around the world should harbor no illusions: buying Iranian oil puts roughly $80 billion per year in the hands of a regime that continues to support terrorism and pursue its nuclear program, and this must stop.

Targeting the Central Bank

The significance of the 311 action notwithstanding, Congress continues to push for heavier financial weaponry against the Iranian regime. Last week, the Senate unanimously approved an amendment to the National Defense Authorization Act calling for sanctions on the Central Bank of Iran. This seemingly logical and potentially powerful weapon has not yet been deployed due to two key concerns: that it could drive up the price of oil, further stressing fragile Western economies, and that the extraterritorial reach of such a measure could undermine the critical task of convincing other states to take similar action. For instance, if the CBI were to be designated by Executive Order 13382 for supporting proliferation, Washington would have to implement the Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010 (CISADA), which would force financial institutions around the world to either sever their relationships with the bank or face being cut off from doing business with the United States unless granted a waiver.

In determining how best to sanction the Central Bank, it is critical to recognize that the institution is primarily a vehicle for targeting the regime's greatest strategic asset -- its roughly $80 billion in annual oil sales. By exposing in detail the true nature of the bank's activities, Treasury's 311 action puts on notice all those still doing business with the bank and marks a dramatic step toward transforming that Iranian strategic asset into a strategic vulnerability.

Looking Ahead

Of course, those nations still purchasing Iranian crude are not eager to change suppliers, so more must be done to make them seriously consider the costs of doing business with Iran. Bold action by the EU, where Spain, Italy, and Greece are resisting a unionwide ban on Iranian oil, would send a powerful message and create momentum for others (e.g., Japan) to act similarly. Although oil-price concerns would require serious consideration under such a scenario, incrementally reducing the market for Iranian crude could force Tehran to offer significant discounts to remaining buyers.

The Iranian financial system is now largely isolated from the international community, and existing sanctions have exacted a serious price. Nevertheless, the regime's progress in developing its nuclear capability remains unchecked. In order for sanctions and other nonkinetic pressures to alter this course, Iran's leaders must be convinced that they stand to lose what all dictatorships value most -- their hold on power. Depriving them of significant oil income would further exacerbate their isolation and perhaps create the stress needed to make them once again fear for regime stability. Even if the chances of reaching the latter goal are less than even, key allies must join forces with the United States to make the attempt.

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