

Why the Iran Sanctions Matter

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Articles & Testimony

Wednesday's U.N. Security Council resolution sanctioning Iran marks a critical turning point in the U.S.-led efforts to target Iran's illicit activities. The resolution focuses on Iran's nuclear-weapons and ballistic-missile programs; the Islamic Revolutionary Guard Corps (IRGC), which is responsible for these programs as well as the regime's support for terrorism; and the Islamic Republic of Iran Shipping Lines (IRISL), which has been directly involved in proliferation shipments. The sanctions included in this resolution are, as U.S. Ambassador to the U.N. Susan Rice put it, "as tough as they are smart and precise." If anything, this new resolution is both too precise and purposefully vague. And therein lies its strength.

The list of 40 entities and one individual listed in the resolution's three annexes is extremely targeted. Employing such "smart sanctions" -- pinpointing the specific entities and persons involved in Iran's illicit conduct and holding them accountable while shielding the general Iranian public from old-fashioned, shotgun, regime-wide sanctions -- has been very effective. This tactic denies Iran's revolutionary regime the chance to deflect blame for the country's economic woes, while disrupting its ability to finance and transport material necessary for its nuclear-weapons and ballistic-missile programs. But the number of entities excluded from the resolution is even more telling than the list of those that made the final cut. Most entities designated this week, for example, had already been designated by the U.S. Treasury Department and/or the European Union. They have therefore already been subject to most of the impacts a U.N. resolution would hope to achieve, such as economic isolation by major financial institutions.

Consider Iran's shipping line, IRISL. The U.S. government first designated IRISL in September 2008 for facilitating the transport of cargo for U.N.-designated proliferators and falsifying documents and using deceptive schemes to shroud its involvement in illicit commerce. And, as the State Department noted at the time of the designation, IRISL had already been "called out by the U.N. Security Council as a company that has engaged in proliferation shipments."

But following up on U.S. and EU designations of entities like IRISL or the IRGC-controlled Khatam al-Anbiya construction company (also called Ghorb) by designating them at the United Nations as well is vitally important to the global sanctions regime. With critical countries such as China, Malaysia, Singapore, and others willing to do only the minimum to comply with Security Council resolutions, getting critical entities like IRISL and IRGC companies designated at the U.N. means wider implementation of sanctions.

Unfortunately, multilateral action is not only difficult to achieve, but can often lead to lowest-common-denominator decision-making. So while international consensus was being built for robust action at the U.N., Britain, the European Union, the United States, and others wisely pursued both unilateral and bilateral financial measures focused on IRISL, IRGC-affiliated entities, and other individuals and institutions facilitating Iran's illicit conduct. With the increased militarization of the Iranian regime and the blatant abuses of the IRGC-affiliated Basij militia, targeting entities affiliated with the Revolutionary Guard unilaterally while international consensus was being built to do so at the U.N. level was an effective strategy. That does mean, however, that this week's list of sanctioned entities is more of a reinforcement of prior actions than completely new ones.

And that's OK. Because though the lists of sanctioned entities are very precise, U.S. and other negotiators made sure

that general "hooks" upon which additional actions could be "hung" were peppered throughout the body of the resolution. These will provide the United States and other states and multilateral bodies with the international imprimatur for further action. Put another way, the new resolution is most important not for the specific entities listed in its annexes, but for providing a foundation upon which further efforts to disrupt Iran's illicit activities can be built.

Note, for example, the multiple times the resolution "calls upon all States" to do things above and beyond checking the list of specifically sanctioned entities and persons, such as the call to "exercise vigilance" over transactions involving the IRGC that could contribute to "proliferation-sensitive nuclear activities or the development of nuclear weapon delivery systems." In plain English, this language effectively empowers states and other international bodies to take still more stringent action against the IRGC.

Broadening its sanctions against Iran's shipping company, the resolution "calls upon all States" to inspect "all cargo to and from Iran, in their territory, including seaports and airports, if the State concerned has information that provides reasonable grounds to believe the cargo contains items the supply, sale, transfer, or export of which is prohibited" by this or prior Security Council resolutions. The contrast between the specificity of the list of sanctioned entities and the fairly low standard of "reasonable grounds to believe" is a telling example of purposeful vagueness that could prove powerful in the hands of states inclined to get tough on Tehran.

Similarly, the resolution "requests" that all member states report to the U.N. "any information available" on "transfers or activity by Iran Air's cargo division or vessels owned or operated by [IRISL] to other companies" that might be related to sanctions evasion. The resolution "calls upon" states to "take appropriate measures" -- which, again, by virtue of being appropriately vague is appropriately empowering -- both to prohibit Iranian banks from opening branches, subsidiaries, representative offices, joint ventures, or correspondent relationships with banks in their jurisdiction and to prohibit financial institutions in their territories or under their jurisdiction from opening offices or accounts in Iran.

Indeed, the resolution specifically "welcom[es]" the guidance issued by the Financial Action Task Force (FATF) -- the multilateral technocratic body that sets international standards to combat money laundering and terrorism finance -- to assist states in implementing their financial obligations under two previous resolutions, 1737 (2006) and 1803 (2008). In particular, it highlights the FATF's warning to "exercise vigilance over transactions involving Iranian banks, including the Central Bank of Iran, so as to prevent such transactions contributing to proliferation-sensitive nuclear activities, or to the development of nuclear weapon delivery systems." So though the Central Bank of Iran is not specifically sanctioned, it is, broadly speaking, open game.

In February, the FATF named Iran to its new blacklist, recognizing that in support of its weapons programs, its crackdown on democracy, and its terrorist proxies, Tehran has continued to engage in deceptive financial conduct aimed at raising, moving, hiding, and accessing funds internationally. In line with the G-20's call to protect the international financial system from abuse, the blacklist identified countries with deficient "anti-money laundering and combating the financing of terrorism" (AML/CFT) measures. Iran received special designation on the blacklist; it was the only country whose illicit financial conduct merited a call for international countermeasures.

Contrary to conventional wisdom, Iran is highly sensitive to such actions. After one of the FATF's warnings, for example, Iran sent a delegation to lobby the agency despite not being a member. The FATF, however, dismissed Iran's claims that legislative changes had fixed its financial shortcomings, calling the new measures "skimpy" and noting their "big deficiencies." Indeed, the FATF blacklisted Iran even as it recognized the regime's "recent steps" to engage with the agency. The message seemed to be that the FATF would not mistake public engagement for substantive progress. Similarly, though Iran requested technical help from the U.N. Office on Drugs and Crime to set up a computer-based training center for its nascent financial intelligence unit, the FATF still highlighted the

regime's "failure to meaningfully address the ongoing and substantial deficiencies" in its AML/CFT efforts.

The result is a sharp increase in the cost of doing business for the Iranian regime. European multinational companies are terminating business relationships with Iran, following the lead of major international banks in tightening the noose on Iran's financial system. Chinese and Malaysian companies may lap up available contracts, but many key technologies Iran needs for its oil and gas industries and for its nuclear and missile programs are only available in the West.

And now, for a change, existing sanctions might finally be seriously enforced. Just as important as the specific list of sanctioned entities and the broad invitations to take further action against Iran is the resolution's creation of a monitoring committee, including a panel of experts, to better enforce existing sanctions. Indeed, expert panels proved effective in strengthening sanctions on Sudan and Ethiopia. The "naming and shaming" power of the panel's findings could further influence firms and individuals considering whether to run the risk of doing business with Iran. Furthermore, an expert panel could also help the Sanctions Committee and U.N. member states by recommending ways to make the sanctions more effective. Such a monitoring committee would be particularly effective if it included among its experts individuals knowledgeable about export control and dual-use goods.

But implementation and follow-up is everything in the sanctions business. For the new resolution to make a difference, three things must happen.

First, states like Britain and the United States, regional bodies like the EU, and multilateral bodies like the FATF and G-20 must all act on the resolution's various "calls" to expand the resolution beyond the list of specifically sanctioned entities.

Secondly, the monitoring committee must demand substantive reports from member states upon which it can submit public reports with substantive recommendations for enhancing enforcement of existing sanctions.

Finally, unless the report finds that Iran has become fully compliant with its obligations, the Security Council must quickly follow up on the report with another round of sanctions. The resolution requests that the director general of the International Atomic Energy Agency submit a report to the Security Council within 90 days on whether Iran has established "full and sustained suspension" of its illicit nuclear activities. If the international community does not respond in a timely fashion, the entire premise of targeted and graduated sanctions -- the credibility of which are premised on consequences for ongoing illicit conduct -- will be irreparably damaged. One reason Iran has not been deterred by the sanctions put in place to date is that the deadlines of prior resolutions came and went with no timely follow-up. This delay undermined the whole sanctions enterprise, leaving Iran with the general sense it could survive sanctions, get by, and outlast the resolve of the international community. June 9's resolution offers an opportunity to reverse that trend and re-empower sanctions as an effective tool of foreign policy, one that doesn't require the use of force.

On their own, these sanctions will not solve the crisis over Iran's nuclear program. But wisely implemented and enforced, they could prove critical in preventing Iran from getting the bomb. And that's a very good thing.

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