GAO Misleads on Iran Sanctions

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Articles & Testimony

There are no foolproof metrics by which to measure the impact of sanctions, whether related to proliferation, terrorism or other issues. On that discreet point the recent GAO report on the impact of Iran sanctions gets it right, and its recommendation that more be done to assess the impact of sanctions is constructive.

Given the nature of the targets in question (terrorist networks, rogue regimes), assessing the impact of sanctions will never be easy. Open source financial data isn't enough. Intelligence is needed to isolate the impact of each specific sanction. The effect of sanctions is often felt over an extended period of time, making the impact of any particular sanction difficult to isolate from the impact of other efforts aimed at the same targets over the same (or overlapping) periods of time. Ideally, we would want to know which financial measure led to which specific impact. For example, we would want to know the relative impact of denying illicit actors access to the U.S. financial system, or forcing them to conduct transactions in softer currencies or via inefficient transfer mechanisms. Unfortunately, tasking the intelligence community to focus its collection on these issues and make impact assessments is a tall order, coming at a time when it is stretched thin to support wars in Iraq and Afghanistan and track nuclear programs in Iran and North Korea.

But on the specific question of the impact and utility of sanctions targeting Iran today, the GAO report simply misses the point. Its findings and recommendations would have been much more useful had it separated analysis into pre-2006 sanctions and post-2006 targeted financial measures. Instead, the report lumps analysis of Iran's economy into one block of time, ignoring the complete tactical shift in sanctions that took place in 2006.

It's not news that the country-wide "shotgun sanctions" of the kind slapped on Iraq in the 1990s were largely ineffective. An analysis of those sanctions programs led the Treasury Department and others to develop a graduated and carefully targeted sanctions program, aimed not at entire countries but at specific illicit actors and focused on deterring illicit behavior. These are not your grandfather's sanctions. To reflect that reality, they usually are not even called "sanctions," but are described as targeted financial measures.

The GAO report does note, almost in passing, that new sanctions have been put in place, but focuses only on the multilateral U.N. resolutions passed in December 2006 (UNSCR 1737) and March 2007 (UNSCR 1747). It does not assess the impact of U.S. unilateral sanctions (although it lists some of them) or the impact of U.S. efforts to leverage market forces against illicit actors, including Iran. Such efforts have yielded results. Indeed, just this week Bahrain's Ahli United Bank, the kingdom's largest lender by market value, suspended business with Iran, and came under pressure to freeze the Iranian operations of its affiliate, Future Bank (which Ahli United established as a joint venture with two Iranian banks in 2004).

Nor does the report account for the impact these and other unilateral efforts have had in leading to other multilateral actions. For example, U.S. designation of Bank Sepah led to its inclusion in UNSCR 1747. U.S. efforts also led to the determination by the Financial Action Task Force (an intergovernmental body that works by consensus and includes China and Russia) that Iran's lack of a comprehensive regime to prevent money laundering and terrorism financing "represents a significant vulnerability within the international financial system."

Where the GAO does have data, its metrics sometimes raise more questions than they answer. For example, a major U.S. aim of pre-2006 sanctions has been to deprive Iran of oil and gas export revenue. The GAO questions the efficacy of these sanctions, identifying a total of $13,561 million in binding contracts (Appendix IV). But the sanctions were never aimed at Iran's investment in petrochemical plants or refineries and gas processing plants for domestic consumption. (If Iran wants to consume more oil and gas at home, all to the good: that leaves less for export.) As my colleague Patrick Clawson has shown, those domestic categories comprise $12,935 million of the $13,561 million in contracts. That leaves a modest total of $626 million in oil and gas export projects -- of which $500 million is for an LNG facility where much of the work is on the port. What's left? A paltry $126 million in binding contracts for oil exploration and production since 2003. (This leaves aside the $4,450 million Azadegan project, which the GAO report notes has been withdrawn.)

Finally, while the GAO report notes the recent NIE on Iran's nuclear intentions and capabilities, it seems almost oblivious to the NIE's most significant conclusion: that the tool most likely to alter Iran's nuclear calculus is targeted political and economic pressure, not military action. According to the NIE, Iran's decision to halt its nuclear weapons program in 2003 was "in response to increasing international scrutiny and pressure resulting from exposure of Iran's previously undeclared nuclear work." The key judgments conclude that the intelligence community's "assessment that the [nuclear weapons] program probably was halted primarily in response to international pressure suggests Iran may be more vulnerable to influence on the issue that we judged previously."

The GAO report is likely to be interpreted as a negative assessment of the current program of targeted financial measures, but the truth is the report has very little to say about them. They need to be disaggregated from earlier efforts and accurately assessed in their own right. In the final analysis, there is plenty of evidence pointing to the fact that targeted financial measures are working.

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