

How Europe Can Pressure Iran

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Articles & Testimony

The U.S. ratcheted up the financial pressure against Tehran last week, unilaterally slapping sanctions on Iran's powerful Islamic Revolutionary Guard Corp, three state-owned banks, and a number of key officials for their involvement in the regime's terrorist financing and WMD-related activities. Realizing the leverage that American financial markets give Washington, senior U.S. Treasury officials have been telling global financial institutions in the last couple of years that doing business with Iran could do great harm to their reputation and complicate their access to the U.S. market. As a result, a number of global institutions -- including Switzerland's UBS and Credit Suisse and Germany's Commerzbank and Deutsche Bank -- have either terminated or dramatically reduced business with Iran.

There are limits to this unilateral strategy, though. Companies and financial institutions that do not operate in the U.S. may be willing to ignore Washington's warnings. But being cut off from New York and the world's other leading financial capital, London, is a risk not too many of these firms would be willing to take. Few could afford to relocate to a smaller financial hub and miss out on the opportunities only the City of London or New York could offer just to continue doing business with Iran.

It is therefore encouraging that British Prime Minister Gordon Brown immediately backed Washington, noting that "we endorse the U.S. administration's efforts to apply further pressure on the Iranian regime." But while public support from the U.S.'s closest ally will undoubtedly help bolster the impact of the unilateral actions, the U.K. could do far more.

If the British government were to send a similarly strong warning to banks, it could dramatically increase the financial pressure on Iran. More than 550 international banks and 170 global security houses have a presence in London. Between \$50-100 billion of Middle Eastern money will enter London in the next few years, estimates Peter Weinberg, the former CEO of Goldman Sachs International. Coordinated visits by top U.S. and U.K. officials to major financial institutions could be a particularly effective way to get the message across that business with Iran is risky so long as Tehran ignores the U.N. Security Council orders about its nuclear program. A joint U.S.-U.K. effort might carry particular weight coming on the heels of the Financial Action Task Force's Oct. 11 statement on Iran. Founded by the G7, the 34-country body instructed financial institutions to use "enhanced due diligence" when dealing with Iran to avoid inadvertently contributing to terrorist financing and money laundering. As U.S. Treasury Secretary Henry Paulson said after Washington's latest step against Tehran: "In dealing with Iran, it is nearly impossible to know one's customer and be assured that one is not unwittingly facilitating the regime's reckless conduct."

While the U.K. wields particularly powerful tools, there may also be other European countries now willing and ready to ramp up financial and economic pressure against Iran. Ideally, this would be done at the European Union level -- something that French President Nicolas Sarkozy has been pushing for. But in the absence of a third U.N. Security Council resolution authorizing additional sanctions, many EU countries, primarily Germany, Austria and Spain, appear reluctant. The French have thus suggested that those European countries willing to act need not wait for unanimity. In fact, France has already announced that it is pressing large French companies to refrain from investing in Iran.

A combined initiative by the U.S. and individual European countries to press Iran may strengthen the hand of those in Tehran arguing for accommodation. It would also be a good way to show China, Russia and laggard European governments that with or without them, action will be taken against Iran. If they are dissatisfied with this approach, they should first spell out a realistic alternative that could bring Iran to suspend its enrichment program.

Mr. Clawson is the Washington Institute's deputy director for research and author of several books on Iran. Mr. Jacobson, a senior fellow in the institute's [Stein Program on Terrorism, Intelligence, and Policy](#) (<http://www.washingtoninstitute.org/templateI02.php?SID=11>), previously served as a senior advisor in the U.S. Treasury Department's Office of Terrorism and Financial Intelligence. ❖

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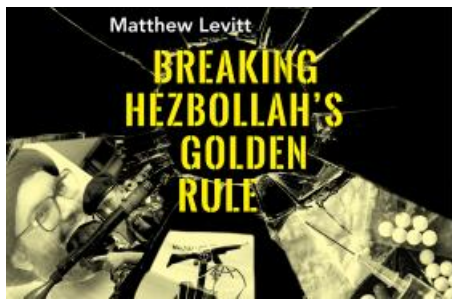
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