

The Smart Way to Target Rogue Regimes

May 10, 2007



Articles & Testimony

Economic sanctions have long been at the core of the international community's efforts to deal with rogue regimes and terrorist organisations. Iraq, Iran, Libya and Sudan have faced sanctions, as have terrorist groups such as al-Qaeda and Hamas. For such a frequently used tool, sanctions are not well regarded.

Critics charge that sanctions are ineffectual, hurt innocent civilians and undercut the business interests of countries imposing the measures.

The US Treasury Department's efforts since 2005 to use financial tools to pressure North Korea and Iran generated considerable skepticism, particularly in Europe. But the results to date suggest that "smart sanctions", meaning targeted financial measures work if used strategically and coupled with outreach to global financial institutions.

Executive Order 13,382 empowered the US Treasury Department to take enforcement action against proliferators of weapons of mass destruction, which it duly did against Iran and North Korea in June 2005. In all, 15 Iranian and ten North Korean entities have been designated under this order.

Among them were Iran's state-owned Bank Sepah, which provided financial services to the ballistic missile programme. The treasury also cut off Iran's Bank Saderat from the US financial system for its role in financing terrorists and used Section 311 of the Patriot Act against the Macau-based Banco Delta Asia, identifying the bank as a "primary money-laundering concern" for facilitating North Korea's illicit activity.

The results have been promising. Many non-US financial institutions and companies reduced or terminated commercial ties with Iran and early last year the Organisation for Economic Co-operation and Development raised its risk-rating for Iran. Months later the Iranian oil minister had to acknowledge that Iran was having trouble financing oil projects.

Of these financial measures, the action against the Banco Delta Asia had the most dramatic impact. Macau's subsequent freezing of nearly €19 million in BDA accounts clearly rattled the North Koreans. It became a major sticking point in the six-party talks, with North Korea refusing to return to the table until the money was returned.

North Korea's anxiety was understandable: by late 2006 some two-dozen financial institutions around the world were reported to have reduced or cut their ties with North Korea.

The targeted financial measures employed by the treasury in recent years have several advantages over traditional sanctions. First, they can narrowly target entities or individuals specifically engaged in dangerous or illicit activity. Second, they are designed to be regime-hostile and people-friendly -- causing economic harm to the entities designated, but not the civilian population.

Third, by using them in a graduated fashion, numerous opportunities are given to the target countries to alter their behaviour before further measures are imposed. This strategy of targeting illicit conduct rather than countries is gradually winning support. The UN Security Council's recent resolutions on Iran, for example, reinforced the treasury's efforts by listing many of the same entities it had designated and obliging member states to freeze their

assets.

The measured approach has also played well with European financial institutions, a number of which have taken action well beyond their legal obligations. Targeted financial measures have proved to be an effective middle ground between diplomacy and military action, giving leverage in cases where none seemed possible and may represent the international community's best chance to change decision-making in Tehran and Pyongyang.

Michael Jacobson is a senior fellow in the Stein Programme in terrorism, intelligence and policy at the Washington Institute for Near East Policy. He was formerly a senior adviser in the US Treasury's office of terrorism and financial intelligence. ❖

European Voice

RECOMMENDED



BRIEF ANALYSIS

[Iran Takes Next Steps on Rocket Technology](#)

Feb 11, 2022

◆
Farzin Nadimi

[\(/policy-analysis/iran-takes-next-steps-rocket-technology\)](#)



BRIEF ANALYSIS

[Saudi Arabia Adjusts Its History, Diminishing the Role of Wahhabism](#)

Feb 11, 2022

◆
Simon Henderson

[\(/policy-analysis/saudi-arabia-adjusts-its-history-diminishing-role-wahhabism\)](#)



ARTICLES & TESTIMONY

[Podcast: Breaking Hezbollah's Golden Rule](#)

Feb 9, 2022



Matthew Levitt

[\(/policy-analysis/podcast-breaking-hezbollahs-golden-rule\)](#)

TOPICS

[Energy & Economics \(/policy-analysis/energy-economics\)](#)

[Proliferation \(/policy-analysis/proliferation\)](#)

[Terrorism \(/policy-analysis/terrorism\)](#)

[U.S. Policy \(/policy-analysis/us-policy\)](#)