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Iran Sanctions: Can They Be Effective?

By Matthew Levitt
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Today, the State and Treasury Departments announced a new package of sweeping unilateral sanctions targeting multiple entities in Iran, including three banks, the Islamic Revolutionary Guard Corps (IRGC) and its Qods Force, the Ministry of Defense and Armed Forces Logistics, several IRGC-affiliated companies, and eight individuals. Can such sanctions be effective in halting Iran's nuclear program? If they are used as part of a comprehensive strategy to create diplomatic leverage, absolutely. Absent this leverage, however, policymakers will eventually be left with the unenviable task of deciding between using military force and tolerating a nuclear Iran.

A New Kind of Sanctions

Targeted economic sanctions represent the strongest nonmilitary means of changing Tehran's behavior. But policymakers do not have to choose between sanctions, diplomacy, and military action. By itself, no one tool can fix the problem. Together, though, financial sanctions and international diplomatic censure, backed by various military options (e.g., a strong naval presence in the Persian Gulf), offer the most effective option for dealing with the threat posed by the Iranian nuclear program.

Unlike the blanket sanctions applied against Iraq under Saddam Hussein, today's Iranian sanctions are both targeted and graduated. First, they are aimed only at those regime elements specifically engaged in illicit conduct (e.g., banks like Melli, Mellat, Saderat, and Sepah; proliferation front companies; the IRGC and Qods Force). Second, they are applied in phases in order to demonstrate that their purpose is not simply to punish Iran but to encourage a behavior change.

Signs of Success

With continuing signs of domestic discontent in Iran, targeted financial measures can increase the political pressure on the regime. Iran's former chief nuclear negotiator, Hasan Rowhani, recently disparaged the country's growing international isolation and stated that economic sanctions were definitely impacting Iran. Despite high oil prices, he noted, "[W]e don't see a healthy and dynamic economy."

This should come as no surprise. According to the Economist Intelligence Unit, the nuclear crisis and sanctions are "imposing a heavy opportunity cost on Iran's economic development, slowing down investment in the oil, gas and petrochemical sectors, as well as in critical infrastructure projects, including electricity." Several major banks have halted or curtailed dealings with Iran. This trend is likely to accelerate in the wake of the October 11 warning by the Financial Action Task Force (FATF) -- an intergovernmental body that works by consensus -- that Iran's lack of a comprehensive regime to prevent money laundering and terrorism financing "represents a significant vulnerability within the international financial system."

Both Russia and China are members of FATF, giving great significance to the organization's statements. Moreover, Iran is the only country FATF has publicly identified as a significant vulnerability. The task force is studying trends and techniques involved in weapons of mass destruction (WMD) proliferation, and it has already issued new guidelines on potential financial means of preventing Iran from engaging in such activity. Meanwhile, the U.S. Treasury Department's Financial Crimes Enforcement Network (FinCEN) has just issued an advisory on the growth of money laundering in Iran.

The FATF and FinCEN advisories should complicate Iranian efforts to find alternative investment opportunities. Recognizing that the regime is actively seeking investment partners to compensate for those it has lost, Deputy Treasury Secretary Robert Kimmitt recently warned China, Russia, and several other countries to respect the sanctions regime and not step into this void.

International consensus for multilateral sanctions is difficult to come by. That is one of the reasons why China and Russia's approval of UN Security Council Resolutions 1737 and 1747 (and, more recently, the FATF announcement) were so powerful. Combined with the Treasury Department's parallel efforts to leverage market forces by engaging in direct discussions with private-sector firms, targeted financial measures are already showing signs of success.

The Way Forward

So far, two rounds of targeted sanctions have failed to change the regime's behavior. To be more effective, and to minimize the likelihood of military conflict, subsequent rounds should follow the lead set by today's U.S. designations and target additional Iranian banks and companies affiliated with the IRGC, especially those involved in the critical oil and gas sectors. This is not the first time the United States has led by example; in January 2007, it unilaterally designated Bank Sepah, and the international community followed suit two months later, designating the bank under Security Council Resolution 1747. Nor should the U.S. move come as a surprise -- speaking to The Washington Institute in May 2007, Deputy Secretary Kimmitt stated that if Washington found an Iranian bank engaged in illicit activity, "We'll go after them."

As Iran's recent experience with the International Atomic Energy Agency (IAEA) has shown, the regime is neither flexible nor forthright when it comes to nuclear negotiations. Washington's European partners correctly insist that direct talks with Tehran, absent Iranian compliance with the Security Council's orders, would only buy the regime more time. At the same time, however, the multilateral UN sanctions process has undeniably bogged down. Action should therefore be taken soon to lay the groundwork for substantive sanctions to follow Iran's report to the International Atomic Energy Agency next month. French officials have already stated that if there are no new UN sanctions by the end of the year, the European Union should "look at more individual kinds of sanctions."

Although multilateral sanctions are preferable, regional and unilateral sanctions are also very effective. In addition to potential European Union sanction, the German and French governments are advising their firms not to invest in Iran. And unilateral U.S. sanctions, such as those under Executive Orders 13224 and 13382, still have multilateral implications; for example, major international financial institutions typically incorporate U.S. Treasury designation lists into their due-diligence databases. In addition, Iran's oil minister was forced to acknowledge the difficulty in financing oil projects only months after the multilateral Organization for Cooperation and Development raised the country's risk rating.

An effective Iran strategy must include carrots as well as sticks, however. The West should clearly communicate the incentives Iran would enjoy in return for full cooperation, even as it continues to sanction the country.

Conclusion

Sanctions do not undermine diplomacy; they create diplomatic leverage. Diplomatic engagement with Iran, whether broad or limited, is severely undermined when Iran is able to pursue its nuclear ambitions, support terrorist groups, and erode security in Iraq and Afghanistan without consequence.

As *Washington Post* columnist David Ignatius put it, "[T]hese new, targeted financial measures are to traditional sanctions what Super Glue is to Elmer's Glue-All." Periodically reassessing and adjusting the package of targeted financial measures will most likely create enough diplomatic leverage to avoid a military confrontation. Short of creating such leverage, negotiation and diplomacy alone will not convince Iran to abandon its nuclear program.

Matthew Levitt is a senior fellow and director of the Stein Program on Terrorism, Intelligence, and Policy at The Washington Institute. Previously, he served as deputy assistant secretary for intelligence and analysis at the Treasury Department.