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New Multilateral Consensus Emerges on Iran

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A February 18 report from the Financial Action Task Force (FATF), the Paris-based organization that sets global standards for combating money laundering and terrorism financing, revealed new details about Iran's ongoing activities in both realms. The same day, a new report from the Vienna-based International Atomic Energy Agency (IAEA) reached disturbing conclusions about Iran's past nuclear efforts while raising intriguing questions about technical problems the regime may be encountering. As global powers debate a fourth round of UN sanctions on Iran, these reports demonstrate growing international consensus on the nature of Iran's illicit conduct.

Blacklisted over Illicit Finance

To support its weapons programs, democracy crackdown, and terrorist proxies, Tehran has continued to engage in deceptive financial conduct aimed at raising, moving, hiding, and accessing funds internationally. Last week, FATF took an important step when it named Iran to its new blacklist. In line with the G-20's call to protect the international financial system from abuse, the blacklist identifies countries with deficient "anti-money laundering and combating the financing of terrorism" (AML/CFT) measures. In fact, Iran received special designation on the blacklist -- it is the only country whose illicit financial conduct merited a call for international countermeasures. The revitalization of the controversial but highly effective blacklist tool underscores FATF's past assessment of Iran and echoes warnings from the United States and elsewhere about the potential costs of doing business with Iran.

Blacklist background. From 2000 to 2006, FATF systematically blacklisted what it termed "non-cooperative countries and territories" (NCCTs), that is, jurisdictions with "detrimental rules and practices in place which constitute weaknesses and impede international co-operation in the fight against money laundering and terrorism financing." In total, FATF's International Cooperation Review Group cited twenty-three jurisdictions for lacking an effective AML/CFT system. FATF's effort to force transparency on these countries was remarkably successful. The financial pariah status of being blacklisted and the prospect of facing severely increased business costs spurred all of them to make significant progress and eventually comply with the global standard. By October 2006, the last country had been de-listed. At that point, the blacklist itself -- which some FATF members viewed as an extreme measure -- was unofficially suspended until last week, when Iran topped the new list.

FATF's record on Iran. The Islamic Republic's prominence on the new list comes as no surprise given FATF's past advisory statements regarding Iranian AML/CFT deficiencies. In October 2007, FATF expressed concern that Iran's lack of a comprehensive AML/CFT regime represented "a significant vulnerability within the international financial system," advising banks and other institutions to consider the risk of doing business with Iran. The agency reiterated these concerns four months later. Then, in October 2008, FATF emphasized Iran's lack of effort to improve and called on members "to strengthen preventive measures to protect their financial sectors from this risk."

Last week's blacklisting announcement referenced these previous warnings and underscored the need for

countries to proactively "apply effective countermeasures to protect their financial sectors" from Iranian AML/CFT risks. FATF went further still, however, warning of Iran's efforts "to bypass or evade counter-measures and risk mitigation practices" and suggesting that countries take the Islamic Republic's track record into account "when considering requests by Iranian financial institutions to open branches and subsidiaries in their jurisdiction." FATF also recommended that governments advise domestic financial institutions to "give special attention to business relationships and transactions with Iran, including Iranian companies and financial institutions."

Tehran's "big deficiencies." Contrary to conventional wisdom, Iran is highly sensitive to FATF's actions. After one of FATF's warnings, for example, Iran sent a delegation to lobby the agency despite not being a member. FATF dismissed Iran's claims that legislative changes had fixed the financial shortcomings, however, calling the new measures "skimpy" and noting their "big deficiencies." Indeed, FATF blacklisted Iran even as it recognized the regime's "recent steps" to engage with the agency. The message seemed to be that FATF would not mistake public engagement for substantive progress. Similarly, although Iran requested technical help from the UN Office on Drugs and Crime (UNODC) to set up a computer-based training center for its nascent Financial Intelligence Unit, FATF still highlighted the regime's "failure to meaningfully address the ongoing and substantial deficiencies" in its AML/CFT regime.

IAEA Criticism of Iran Increases

Much like the new FATF report, the February 18 IAEA report listed several new areas on which Iran has refused to cooperate with international norms.

Additional enrichment facilities. Recently, Tehran declared that it has selected five sites for new enrichment facilities and has plans for five more after that. The regime has not fulfilled the IAEA's request for information about these facilities, however. Iran claims that it is not required to report such facilities until shortly before they open, which the IAEA disputes. As for the Fordow enrichment plant exposed in September 2009, the new IAEA report describes "extensive information from a number of sources" alleging that "design work on the facility started in 2006, i.e., at a time when Iran itself accepted that it was bound by the modified Code 3.1 to have informed the Agency." Tehran did not notify the IAEA of the Fordow plans at the time, of course. In a letter to the agency regarding Fordow, Iran stated, "The location [near Qom] originally was considered as a general area for passive defense contingency shelters for various utilizations." Awkwardness aside, the statement is interesting for its use of the plural "shelters," implying that the Fordow facility is only one of several shelters.

One-day notice for 20 percent enrichment. Iran acknowledges that it did not inform the IAEA of its intent to enrich uranium to 20 percent until February 8, only one day before actually beginning the enrichment process and two days before the arrival of IAEA inspectors. That action -- which violated Article 45 of Iran's safeguards agreement with the agency -- could not have been better designed to infuriate IAEA technical staff and raise doubts about Tehran's commitment to the agreement.

"Possible military dimensions." One section of the IAEA report describes how the agency has attempted to discuss several potential military applications with Iran, including "high precision detonators fired simultaneously," "whether Iran developed a spherical implosion system, possibly with the assistance of a foreign expert" (widely rumored to be Russian), and "whether the engineering design and computer modeling studies aimed at producing a new design for the payload chamber of the missile were for a nuclear payload." The report goes on to state that these activities "seem to have continued beyond 2004" -- a different conclusion than that of the 2007 U.S. National Intelligence Estimate.

Technical problems? In addition to criticizing Tehran's uncooperativeness, the IAEA report contains intriguing information indicating that Iran is no longer necessarily on an upward enrichment path. Specifically, it states that Iran had fewer centrifuges operating at the end of January 2010 than it did last summer, that most of the installed centrifuges are not working (4,756 out of 8,528), and that the amount of material enriched per

month has stabilized over the past several months. Although the reason for these developments is unclear, it is at least possible that Iran has encountered problems and is working to fix them. It will be very interesting to see how well Iran manages the 20 percent enrichment process in light of these seeming limitations.

The IAEA report also notes that since August 2009, Iran's Isfahan conversion facility has not produced any additional uranium hexafluoride (UF₆) feedstuff for centrifuges. Iran has low stocks of the yellowcake used to produce UF₆ and no obvious source for more of the material. Although it has sufficient UF₆ for many years of centrifuge operation, that stock would be grossly inadequate if Iran truly wanted to make the large quantity of low-enriched uranium required to fuel a power reactor.

Implications: China's Policy?

As world powers consider additional sanctions, Tehran must be concerned that China, a FATF member since 2007, has signed on to a series of agency warnings regarding the Islamic Republic. Moreover, Beijing did not block the latest blacklisting measure, indicating its willingness to support some action targeting Iran's illicit conduct. Indeed, FATF set June 2010 as a hard deadline -- if Iran does not take concrete steps to improve its AML/CFT regime, the agency will call for even more stringent countermeasures. China's willingness to go along with the threat of new FATF sanctions raises the question of what stance China will take about new UN sanctions, especially if the IAEA's objections remain unanswered.

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