Insight

Iran Sanctions: A Look Ahead

NOVEMBER 20, 2012

Painful as sanctions have become for Iran, the U.S. should not be satisfied that current laws alone will exert the maximum pressure. The Obama Administration should embrace the Congressional penchant for new sanctions legislation, continuously identify and penalize firms that are helping Iran do business, and hold accountable countries that promised to reduce their oil imports from Iran.

Most U.S. policymakers today view sanctions primarily as a means of pressuring Iran to accept a deal on its nuclear program. The stakes are high – in the event that a deal cannot be reached, the alternative may be a military strike on Iran's facilities, which the Obama administration desperately wants to avoid. And the clock is ticking. While estimates of the time necessary for Iran to develop nuclear weapons capability are notoriously unreliable, we know they are continuing to make progress and we know the Israelis are losing patience. Some people think the Iranian nuclear program could become impervious to attack sometime next year.

Current sanctions may not bring Iran to its knees before its nuclear program crosses the threshold of invulnerability, especially if Tehran succeeds in relieving the pressure through loopholes and other tactics. What steps, then, should the U.S. take next?

History shows that the most effective sanctions are multilateral ones. The U.S. should continue to press other countries to curtail trade with Iran, particularly in oil. In a perfect world, the UN Security Council would be the place to ratchet up multilateral oil sanctions against Iran. However, the negative experience of UN sanctions on Iraq, coupled with resistance by China and Russia, make this avenue unlikely to yield results.

Members of Congress reportedly are crafting a new extraterritorial sanctions proposal that could accelerate the damage to Iran's economy, and may seek to attach it to a currently pending defense bill. The legislation would expand upon existing energy sanctions by banning "agricultural, industrial and consumer goods the country imports to ensure manufacturing capacity and the basic functioning of its economy." As with previous measures, third-country companies would be forced to choose between the Iranian or American markets. The measure might allow exemptions for countries that make significant reductions in their trade with Iran, which was a feature of previous legislation.

The Obama Administration has opposed previous Iran sanctions measures – including the sanctions it now takes credit for – and will likely express reservations about the new proposal. It's broader than past efforts, and critics may argue that it unfairly hurts the Iranian people rather than the regime. It could cause strains in U.S. relations with countries that still do business with Iran. Some will assert that it undercuts U.S. efforts at the negotiating table.

The Administration would be foolish to speak out publicly against the new legislation, given that the last Iran sanctions measure it opposed passed the Senate 100-0. Rather, it should embrace additional sanctions in order to gain maximum leverage in negotiations. And it need not wait for the bill's enactment into law to begin using it to ratchet up the pressure on Iran and its enablers. In a "good cop-bad cop" scenario, the Administration should talk frankly about the proposal's consequences with the Iranians, as well as with Iran's trading partners. The Administration should explain that other recent sanctions bills have passed overwhelmingly, and they may be powerless to stop it. Other countries should be encouraged to begin making plans now for its passage.

Equally important, if not more so, will be the Administration's actions to enforce current sanctions in the face of Iranian attempts to circumvent them. Iran will try to launder money and find alternative means for conducting financial transactions. Ships will be reflagged in order to avoid detection. Traders will try to conceal Iranian oil by blending it with that from other countries.

Many of these activities are already happening. Iran reportedly is trying to evade sanctions through Armenia, Iraq, and elsewhere. It is selling oil to Turkey in exchange for gold. A large Swiss company, Vitol, is still trading in Iranian oil, exploiting loopholes and engaging in deceptive practices. The U.S. must push back against any and all abuses.

Encouragingly, on July 31, the Treasury Department levied sanctions on Kunlun Bank in China and Elaf Bank in Iraq for conducting business with banned Iranian banks. The sanctions prohibit them from accessing the U.S. financial system and will make it more difficult for them to maintain other international banking relationships. However, even if the sanctions succeed in putting these banks out of business or ending their dealings with Iran, new banks will arise to fill the void. Constant vigilance will be required in the fast-moving financial sector.

The U.S. also will need to track Iranian oil sales and hold countries accountable. According to the International Energy Agency, Iranian oil output already is rebounding, driven by increased purchases from China and South Korea. The Obama Administration previously exempted some 20 countries from sanctions on the basis of reduced purchases of Iranian oil – including China and South Korea – but these exemptions will be up for renewal soon. Failing to hold these countries liable for increased imports could undermine the progress to date.

If sanctions truly are the key to breaking the nuclear impasse between Iran and the West, it is incumbent on the Obama Administration to make them as effective as possible. It should take advantage of Congress's appetite for more sanctions. It should monitor Iran's activities closely and use tools at its disposal to punish companies and countries that are throwing Iran a lifeline. Tough sanctions enforcement, coupled with a credible military threat, may increase the chances for success at the negotiating table.