

Juan C. Zarate

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Beyond Sanctions

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The U.S.-led financial-sanctions campaign currently under way against Iran is biting, but it isn't enough. To change the Iranian regime's nuclear calculus, the administration and the international community need to act urgently to pressure Tehran along multiple lines.

To be sure, the latest escalation of sanctions and financial isolation is hurting the regime. Legitimate banks, insurance and shipping companies, and energy firms are abandoning business with Iran for fear of sanctions and risk to their reputations. The most recent round of sanctions — those set in motion by the United States, along with the European Union's most severe measures against Iran since the passage of U.N. Security Council Resolution 1929 — increased the pressure on Iran's economy by targeting its dependence on refined-petroleum imports and closing correspondent relationships between Iranian banks and those in other countries. And more nations are adding their voices to this chorus. Significantly, Japan and South Korea, two of Iran's largest trading partners, just announced that they would impose harsh sanctions and target designated Iranian entities.

The U.S. Congress recently passed the Comprehensive Iran Sanctions, Accountability, and Divestment Act, which has created fear of secondary sanctions against non-American companies still doing business with Iran. Lloyd's of London has announced it will stop insuring or reinsuring refined-petroleum shipments into Iran. European insurance giants Allianz, Munich Re, and Hannover Re have committed to ending business ties with Iran. Multinational firms including Total, Repsol, Royal Dutch Shell, BP, Eni, Petronas, Reliance, Glencore, Trafigura, and Vitol have all ended their refined-petroleum trade or energy investments in Iran. In July, Iran's gasoline imports were down 50 percent from May, according to the International Energy Agency, and according to Reuters they were down 90 percent in August from the previous year. The State Department estimates that \$50 to \$60 billion in upstream energy-development projects (i.e., exploration and production) have been terminated or put on hold over the last several years.

These sanctions work because they are triggered by Iranian activity, which is growing less transparent and more suspicious, thus causing further reluctance by the private sector to do business with Iran. As Iran's financial isolation grows, Iranian ventures — especially those controlled directly by the regime — will seek to hide their activities in order to evade scrutiny and sanctions, causing the private sector to worry further about business with Iranian entities. In June, the Treasury Department issued a financial advisory for precisely this reason.

Another factor is the growing and visible role of the harsh and repressive Islamic Revolutionary Guard Corps (IRGC) in Iran's economy. The sanctions target IRGC leaders and front companies, which may account for the withdrawal from the South Pars gas-field development (the world's largest, and shared between Iran and Qatar) of Khatam al-Anbia, the IRGC's engineering company. All this fuels the suspicion of the legitimate financial and commercial worlds and is amplified by the Iranian regime's electoral illegitimacy and human-rights violations, along with

the growing evidence of duplicity regarding its nuclear program. This pressure will increase stress on an Iranian economy already battered by profound mismanagement, years of growing isolation, and the global economic downturn. It also appears to be exacerbating tensions within the regime, which were already serious enough to threaten its stability.

Unfortunately, the sanctions campaign alone won't be enough to stop Iran's march toward nuclear-weapons capability. Though Defense Secretary Robert Gates and Secretary of State Hillary Clinton have described sanctions as a tool to change the Iranian regime's thinking about its weapons program, CIA director Leon Panetta has admitted that they will not achieve this goal, and that the emergence of a nuclear-weapons-capable Iran is possible within two years. Karim Sadjadpour, an Iran expert from the Carnegie Endowment, has emphasized this point, noting that Tehran's hardliners are hard-wired to oppose the United States and to resist compromise in the face of direct pressure. Time is running out; the threat of an Israeli strike on Iranian nuclear facilities is increasing; and the administration is at a loss to decide what's next.

It has hamstrung itself by talking about the utility of sanctions in maximalist terms. Secretary Gates explained that the point of sanctions is to "persuade the Iranians that they . . . will undermine their security by pursuit of nuclear weapons, not enhance it." Biting sanctions can achieve important objectives, though those objectives may sometimes be peripheral to the Iranian regime's nuclear calculus. As stated above, they can exacerbate internal regime fissures and increase the isolation of the regime; they can also buy time by delaying supplies Iran needs for its nuclear program, interrupt flows of funds sent to terrorist proxies, and serve as a diplomatic chip if the regime ever comes to the table. But we need to use this pressure as a starting point, and use multiple lines of pressure at once against Tehran.

The Obama administration has framed its engagement with Iran as a step-by-step diplomatic dance, with an ascending scale of confrontation. Sanctions and financial pressure come in the middle of that dance — after engagement and before other options (presumably military). Aside from giving Iran more time by dismissing the diplomatic engagement that occurred before January 2009, this framework constrains the administration's ability to think about financial pressure as one part of a much broader campaign, with multiple approaches pursued simultaneously, to build leverage against the regime. Such leverage could help at the negotiating table or could lead to regime change. But the mullahs know the steps to this dance, and their diplomatic maneuvers (such as making insincere offers of negotiations, with unrealistic conditions attached, that the administration will have to follow up on) can buy them more time. The strategic ambiguity of "all options on the table" is undermined by the tactical predictability of the Obama administration's strategy. Most troubling, the administration has seen a potential dialogue with the regime as a goal in and of itself. This way of thinking has foreclosed opportunities to build multiple sources of leverage. A case in point: The administration's muted response to the Green Movement opposing last year's fraudulent election. Obama's temporizing made clear that he saw the movement as a complication to be avoided rather than a strategic opportunity.

We should pursue our Iran policy on three separate tracks simultaneously. Our approach should attempt to (a) slow the Iranian nuclear clock, (b) create and exacerbate fissures within the Iranian regime and Iranian society, and (c) build other forms of leverage that could affect the regime's

decision-making and enhance our credibility with allies. Here's how:

- Build on the momentum of our financial-pressure campaign, highlighting Iran's deceptive business practices, and anything the IRGC does to control the Iranian economy, by all available means, including Treasury advisories suggesting caution when dealing with certain entities, designations of firms as terrorist-affiliated, public hearings in Congress or other bodies, and private meetings with commercial actors still doing business with Iran. The Treasury should threaten and enforce sanctions on any entity doing business with the IRGC or the 16 designated Iranian banks. This could be followed by the designation of Iran and its central bank as "primary money laundering concerns" under section 311 of the Patriot Act, signaling to the international financial community not to trust any Iranian commercial activity. The United States does not need the U.N. to do this. Indeed, the U.S. Treasury added the German-based European-Iranian Trade Bank AG to its blacklist just last week. The continued disengagement by international companies, the growing role of the IRGC in Iran's economy, and growing dread of potential military conflict will feed private-sector flight from Iran. A similar approach was quite effective in choking off North Korea's illicit global business activities in 2005.
- Bolster the flagging Green Movement with a full-throated human-rights campaign against the Iranian regime — ideally led by human-rights NGOs. Such a campaign could be a means to protect and empower dissidents. Perhaps with breathing space enabled by international scrutiny, the movement can regain its footing, thus forcing the regime to defend itself on another front.
- Promote digital dissidents by providing the technology necessary to circumvent Iran's Internet controls and its attempts to undercut the opposition's communications. The Obama administration has started on this path by allowing general licenses for the export of some technology to Iran, but the campaign must be more active — a 21st-century Berlin airlift to facilitate the movement of information in both directions across Iran's borders. The United States should generously fund the Falun Gong's Global Internet Freedom Consortium, which has provided dissidents around the world with technologies to circumvent state controls, and should creatively enlist the participation of the Iranian-American community. This would give real meaning to Secretary Clinton's Internet-freedom agenda and momentum to the democracy activists in and outside of Iran.
- In concert with interested international partners, threaten the mullahs and the IRGC with an international hunt for assets owned by regime leaders, as a complement to existing sanctions on those leaders. The Iranian regime and security establishment have made fortunes off the people of Iran. A focus on assets held outside of Iran by the regime's key leaders, and the accompanying exposure of corruption and kleptocracy, would threaten both those leaders' legitimacy and their finances. It could also make certain regime members more willing to cut deals with us and influence decisions internally in the direction of de-escalation.

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- Promote international scrutiny on Iran's support for terrorist proxies and militias, despite international disagreement about labeling groups like Hezbollah and Hamas terrorists. The United States should request that the U.N. committees responsible for dealing with terrorism —

in particular the U.N. Security Council Resolution 1267 al-Qaeda and Taliban Sanctions Committee — report on Iranian support for the Taliban and explain what the Iranians are doing with senior al-Qaeda leadership in Iran. Highlighting Iran's terrorist sponsorship will make it harder for the regime to continue that support and will underscore the danger of nuclear terrorism and proliferation should Iran acquire atomic weapons.

- Maintain a credible military option, as the Bipartisan Policy Center has recently recommended. This will keep the possibility of force in the mind of the Iranian regime and reassure our allies. Credible demonstrations of U.S. military reach, such as naval exercises, become important as we push the international community to take more difficult steps — and perhaps ask the Israelis not to attack Iranian nuclear sites.

Engagement with Iran works only when we are dealing from a position of strength. With the clock ticking and concerns over an Israeli strike rising, we must deploy a multidimensional strategy. The financial-pressure campaign is a strong cornerstone for those efforts, but it's only a start. To stop Iran from building nuclear weapons, we must use every weapon at our disposal.

— Juan C. Zarate is a former deputy national-security adviser for combatting terrorism and a former assistant secretary of the Treasury for terrorist financing and financial crimes. He is now a senior adviser at the Center for Strategic and International Studies and the senior national-security analyst for CBS News. This article first appeared in NR's October 4 issue.