

The Use of Economic Pressure on Iran

Iran's susceptibility to economic pressure

For several years, Iran's economy was cushioned from foreign pressure by the high price of oil. That has changed as oil prices have declined and Tehran's poor policies have exacerbated serious structural weaknesses. The energy sector accounts for half of Iran's national budget and 80% of its hard currency. Much of Iran's oil industry is dependent on foreign investment. Despite the fact that Iran produces oil, it does not have the technology to refine it and must import the majority of the gasoline it uses. The most likely prospect is that during the next few years, Iran's economy will face serious problems. The confluence of these factors increases the likelihood that foreign pressure may now be more effective than it has been in the past.

Economic sanctions

The United States utilized economic sanctions against Iran in 1979 after the seizure of the U.S. Embassy in Tehran. Since that time, Iran's support of international terrorism and its pursuit of weapons of mass destruction have been the impetus for numerous additional sanctions. Economic sanctions include import embargos, a prohibition of U.S. involvement with petroleum development in Iran and a prohibition of almost all trade and investment activities with Iran by U.S. citizens. As of November, 2008 U.S. depository institutions are no longer authorized to process transfers involving Iran that originate and end with non-Iranian foreign banks.

In general, a person may not export from the U.S. any goods, technology or services, if that person knows or has reason to know such items are intended specifically for supply, transshipment or re-exportation to Iran. The exception to this rule is donations of articles intended to relieve human suffering (such as food, clothing, and medicine), gifts valued at \$100 or less, licensed exports of agricultural commodities, medicine, and medical devices, and trade in "informational materials."

Sanctions can be useful in stopping Iran's illegal activities, deterring third parties from knowingly or unintentionally facilitating illegal activities and influence the regime's decision making process. On their own, they were never intended to stop Iran's nuclear program. They are important tools to be used together with diplomacy and a credible military presence in the region in the effort to influence the decision making process of the government.

Some experts have called for a broadening and tightening of sanctions. Secretary of State Clinton has threatened the possibility of imposing "crippling sanctions." In 2007, the Iranian government issued gas rationing cards that caused considerable controversy as the rations that were intended to last for six months were used up within a few weeks. With the winter months approaching, ratcheting up of sanctions would create significant additional pressure on the government.

Recent US legislative efforts

Rep. Howard Berman introduced legislation in April that would increase economic sanctions against Iran. The legislation would encourage foreign governments to direct state-owned and private entities to stop all investment in Iran's energy sector and all exports of refined petroleum products to Iran; impose sanctions on the Central Bank of Iran and any other Iranian financial institution engaged in proliferation activities or support of terrorist groups; and work with allies

to protect the international financial system from illegal practices by Iranian financial institutions involved in proliferation activities or support of terrorist groups. This legislation currently has 277 co-sponsors but was held in committee in order to give the President's diplomatic efforts more time. Rep. Berman has made it clear that he intends to push the legislation forward by the fall, unless diplomatic engagement with Iran bears fruit.

Multi-lateral economic sanctions

The U.N. Security Council has imposed three sets of sanctions on Iran, in December 2006, March 2007 and March 2008 but they have all been ignored by the Iranian government. The European Union has frozen assets of Iran's biggest bank, Bank Melli, and has urged member states to be vigilant about Iranian financial institutions, especially Bank Saderat. While Britain and France have taken leadership roles in addressing Iran's nuclear program, other countries have been resistant. Germany has considerable economic interests in Iran, which include some \$5.7 billion in exports to Iran in 2006 (compared to less than \$1 billion for Britain and \$2.6 billion for France). The bigger problem has been China and Russia though they surprised Iran with their willingness to agree to Chapter VII UN Security Council resolutions making Iranian uranium enrichment illegal and imposing limited economic sanctions.

Divestment

While sanctions are mechanisms imposed by governments and the United Nations, divestment is a specific economic tool that calls on individuals and institutions to take action to diminish Iran's financial capacity to continue its nuclear program by withdrawing investments of private and government funds from companies that do business in or with the government of Iran. The combined divestment efforts of many states is another 'tool in the toolkit' to apply pressure to the Iranian government.

There are three types of divestment that have been proposed in the U.S. Targeted divestment focuses only on approximately twenty companies with at least \$20 million invested in Iran's energy sector. 'Terror-free' investing targets all countries designated as state sponsors of terror (Sudan, Iran, Cuba and Syria). The third type of divestment is total divestment from Iran only. More than 10 states have passed divestment laws and other states have enacted divestment policy. In Missouri, the MO Investment Trust (MIT) and the MO State Employees' Retirement System (MOSERS) have enacted terror free investment policies.



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#12 Millstone Campus Drive, St. Louis, MO 63146-5776 E-mail jrcrstl@jrcrstl.org 314-442-3871

www.jrcrstl.org

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