



PERSPECTIVES

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Can the US Make Iran Sanctions Stick?

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EXECUTIVE SUMMARY: Iranian leaders have said the [future of the nuclear agreement](#) (the JCPOA) in the wake of the US withdrawal will depend on the ability of Europe, China, and Russia to ensure that the impact of US sanctions is substantially blunted. While Europe's resolve to do so is questionable, Russia, China, the UAE, and Oman appear willing to step in.

[Recent Iranian trade figures](#) suggest that the United Arab Emirates (UAE), a strong backer of US efforts to squeeze Iran economically, could emerge alongside China as the Islamic Republic's foremost lifeline in seeking to blunt the impact of harsh sanctions. Russia and Oman are emerging as runners-up in possible efforts to enable Iran to circumvent sanctions.

Casting further doubt on Europe's ability and will to stand up to US secondary sanctions, despite its vocal support for the embattled 2015 international agreement that curbed Iran's nuclear program, are new German financial rules scheduled to take effect this month. The [rules could delay or prevent crisis-ridden Iran from repatriating 300 million euros](#) (\$347 million) deposited in an Iranian-controlled bank in Hamburg.

Figures for Iranian trade in the period from March 21 to July 22 of this year, compiled by Iranian energy and economics analyst Ms. Faezeh Foroutan, show China and the UAE jointly accounting for 39.8% of Iranian imports and 37.8% of its exports. By comparison, nine members of the EU, including heavyweights Germany, France, and Britain, shouldered only 15.5% of imports and 7.93% of exports.

Iranian foreign minister Muhammad Javad Zarif said recently that [China's role is key](#). "The role of China in the implementation of JCPOA, in achieving JCPOA, and now in sustaining JCPOA, will be pivotal," Zarif said.

China, a signatory to the nuclear agreement alongside Europe, Russia, and the US, which withdrew from the accord in May, has rejected US requests to cut Iranian oil exports though it has reportedly promised not to increase them. China is Iran's top energy export market.

[China's refusal to cut back on Iranian oil purchases](#) threatens to render the Trump administration's goal of reducing Iranian exports to zero unachievable, and means its November 4 deadline to do so is unrealistic.

Acting out of self-interest, China appears willing to strengthen the Islamic Republic in other ways, including by [militarily supporting the Iranian-backed regime of Syrian president Bashar al-Assad](#) in its quest to gain control of Syria's last major rebel stronghold in the northern region of Idlib.

Speaking to Syrian pro-government daily *al-Watan*, China's ambassador to Syria, Qi Qianjin, said Beijing was "following the situation in Syria, in particular after the victory in southern (Syria), and its military is willing to participate in some way alongside the Syrian army that is fighting the terrorists in Idlib and in any other part of Syria." The ambassador was referring to recent regime victories against rebel forces in southern Syria and on the Golan Heights.

Chinese participation in a campaign in Idlib, the dumping ground for rebels evacuated from elsewhere in Syria, including Uighur fighters from the north-western province of Xinjiang, would be China's first major engagement in foreign battle in decades. China is concerned that Uighur fighters may want to return to Xinjiang.

The UAE's potential role in helping Iran deflect US sanctions may not be surprising given that Dubai has long functioned as a key trans-shipment point for Iran, with trade in the year ending at the end of March [topping \\$16.8 billion](#). It is nevertheless notable given Emirati backing for the US sanctions.

Iran, nonetheless, in response to a series of [UAE measures against Iranian financial networks](#), has sought to shift its [export hubs to Qatar and Oman](#) and strengthen economic ties with Russia.

The UAE "has been Iran's number-one trade partners for years. The point is the growing role of Russia and Oman," Foroutan said, though she expressed doubt that Oman could replace the UAE in the short term.

Russia advised Iran during a meeting between President Vladimir Putin and Ali Akbar Velayati, a senior adviser to Iran's supreme leader, Ayatollah Ali Khamenei, that his country is willing to invest \$50 billion in the Islamic

Republic's oil and gas sector. The two men met days before Putin's summit last month in Helsinki with President Donald J. Trump.

Velayati said a Russian oil company had already signed a \$4 billion deal with Iran that "will be implemented soon" and that "two other major Russian oil companies, Rosneft and Gazprom, have started talks with Iran's oil ministry to sign contracts worth up to \$10 billion."

Iran and Russia signed preliminary agreements for up to \$30 billion in investments in Iran's oil industry months before the Trump administration said it would reimpose sanctions.

Europe's ability and willingness to play its part in salvaging the nuclear deal was called into question by the new German financial rules and could depend on [whether the Brussels-based Society for Worldwide Interbank Financial Telecommunication \(SWIFT\) bows to US threats](#) if it fails to exclude Iranian banks from its global financial transfer system by November.

European officials suggest that a SWIFT concurrence with US sanctions would put to bed any hope of salvaging the nuclear deal. Europe appears, however, to be banking on the fact that the US may not follow through on its threats because that could undermine the global financial system that empowers it.

However, the new German central bank rules, which create additional powers to block transactions if their execution could threaten "to end important relationships with central banks and financial institutions of third countries," appear to be a nod towards the US sanctions.

Coming into effect on August 25, the rules could allow the bank to reject an Iranian request that it authorize the withdrawal of \$300 million from the Europäisch-Iranische Handelsbank AG, a Hamburg-based financial institution owned by Iranian banks, including the state-owned Bank of Industry and Mine. Iran wants to physically ship the money to Tehran to evade potential US efforts to block a transfer.

Iranian officials told the German government that [the foreign currency was needed to enable Iranians who travel abroad](#) but don't have acceptable credit cards because of sanctions to be able to pay their travel expenses.

US and Israeli officials pressured Germany to block the withdrawal, arguing that Iran might use the funds to finance operations in Syria, Yemen, Iraq, or Afghanistan. Said controversial US ambassador to Germany Richard A. Grenell: "[We are very concerned](#) about the reports that the Iranian regime is trying to move hundreds of millions of euros to Iran from a German bank."

A German decision to block the transfer of the funds would influence Iranian perceptions of the resolve of Europe as a whole. That in turn would focus attention on Iran's major trading partners. China and Russia have been relatively clear about where they stand. The UAE may find it more difficult to evade measures that would severely curb what has long been a lucrative business.

An op-ed in the *Khaleej Times*, the UAE's oldest English-language newspaper, which was co-founded by the UAE government, published days before the US withdrawal from the nuclear agreement that [the UAE would gain whether or not sanctions were reimposed](#). "The UAE could gain from sanctions because it has previously served as a valuable intermediary during similar periods. Goods that could not be sold to Iran directly due to sanctions were routed through the UAE," the op-ed said.

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