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U.S. Targets Iran's Oil, Central Bank in Effort to Thwart Nukes

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By Indira A.R. Lakshmanan and Cheyenne Hopkins

Nov. 22 (Bloomberg) -- The U.S., the U.K. and Canada expanded measures aimed at thwarting Iran's nuclear program, targeting its central bank and oil industry with sweeping actions intended to cut the regime off from international financial transactions.

Yesterday's actions are in response to a Nov. 8 United Nations atomic agency report concluding that previous sanctions have not stopped the regime from clandestine nuclear-bomb work.

The Obama administration for the first time yesterday declared that the entire Iranian financial sector, including its central bank, is involved in money laundering. It invoked the anti-terrorism USA Patriot Act to target direct and indirect financing to Iran's regime.

Any institution or company in the world that engages in transactions with Iran's banking system is "at risk of supporting Iran's illicit activities: its pursuit of nuclear weapons, its support for terrorism," Treasury Secretary Timothy F. Geithner said in a press conference in Washington. "Financial institutions around the world should think hard about the risks of doing business with Iran."

The new U.S. sanctions also target companies that provide goods or services to Iran's oil and gas industries. Existing U.S. laws have forced most international oil companies out of Iran and the new measures aim to stop it from obtaining technology and money from smaller foreign companies.

Violated Obligations

The administration authorized sanctions against anyone helping Iran develop petroleum resources in any transaction worth \$1 million or any series of deals valued at \$5 million in a one-year period, the Treasury Department said.

President Barack Obama said the U.S. acted because Iran has violated its obligations under the Nuclear Non-Proliferation Treaty and its commitments to the UN's International Atomic Energy Agency, known as the IAEA.

The measures "target for the first time Iran's petrochemical sector, prohibiting the provision of goods, services, and technology to this sector and authorizing penalties against any person or entity that engages in such activity," Obama said in a statement.

Oil is Iran's major source of income, with \$80 billion in annual revenues from its daily output of about 3.5 million barrels, according to Iranian official figures and IAEA estimates. Petroleum sales fund the majority of Iran's government budget, according to figures compiled by the Washington-based Foundation for the Defense of Democracies.

An Iranian cabinet minister yesterday said Iran will find new ways to evade sanctions and do its business.

'Elaborate' Circumvention

"With stricter sanctions, our techniques to circumvent also become more elaborate," Industries, Mines and Commerce Minister Mehdi Ghazanfari said in Tehran, according to the official Islamic Republic News Agency.

A Nov. 8 report by the Vienna-based IAEA said Iran used front companies and foreign scientists to pursue nuclear weapons. Iran insists its nuclear program is for peaceful energy use and medical research.

Mark Dubowitz, director of the Iran Energy Project at the Foundation for the Defense of Democracies, said the measures announced yesterday send a signal to the financial world to wind down business with Iran or face the prospect of not doing business with the U.S.

"If you're buying oil from Iran and settling oil-related transactions, you're doing business with a central bank that is aiding and abetting" terrorism and nuclear weapons activities, Dubowitz said in an interview.

Asian Markets

Japan, China, India and South Korea are the top four buyers of Iranian oil, according to the U.S. Energy Department.

The challenge is "to target Iran's oil sales without spooking markets and driving up the price of oil," Dubowitz said.

Oil was traded near the lowest price in more than a week on speculation U.S. stockpiles are rising and European demand will fall. Crude for January delivery was at \$96.67 a barrel, down 25 cents, in electronic trading on the New York Mercantile at 12:58 p.m. in Tokyo.

American financial institutions were already prohibited from doing business with Iranian financial firms, including the central bank. The U.S. has not invoked section 311 of the Patriot Act to designate any country's entire financial system for money laundering since it named Myanmar in 2003. The move will require U.S. firms to ensure that none of their relationships with foreign banks are used to benefit Iran.

Matthew Levitt, a former deputy assistant secretary of Treasury for intelligence and analysis during the Bush administration, called the decision to invoke the Patriot Act "a huge action that I think is going to have a huge effect."

'Very Small Number' Left

Levitt, now a senior fellow at the Washington Institute for Near East Policy, said in an interview that the only banks that should feel comfortable doing business with Iran now are those "who have no footprint in the U.S. and no interest in dollarizing transactions, and that's a very small number of banks."

David Caruso, chief executive officer of Dominion Advisory Group LLC, an anti-money laundering firm based in Centreville, Virginia, said in an interview that U.S. banks "will be scrambling over the next several weeks to put in additional procedures" to check on foreign correspondent banks, because they don't want any connection to money laundering.

Secretary of State Hillary Clinton said yesterday's actions "do not exhaust" the U.S. ability to impose further pressure on Iran. Praising the U.K. and Canada, Clinton said the U.S. expects action from other allies soon.

U.K., Canada Actions

U.K. Chancellor of the Exchequer George Osborne banned his country's financial institutions from doing business with Iranian counterparts, including the central bank. Canada is blocking "virtually all transactions" with Iran and its central bank, Peter Van Loan, the government's leader in the House of Commons, told lawmakers.

French President Nicolas Sarkozy called for additional financial pressure, including freezing Iran's central bank's assets, according to a statement from the president's office. In a letter sent yesterday to leaders of the U.S., Germany, Japan, the U.K., Canada and the European Union, the French president said nations should stop purchasing Iranian oil.

Iran is the second-largest oil producer in the Organization of Petroleum Exporting Countries, after Saudi Arabia.

The European Union has said it will impose further sanctions Dec. 1. China and Russia have so far blocked the passage of any new sanctions on Iran at the United Nations Security Council.

The U.S. will continue trying to engage in negotiations with Iran while also pressing for sanctions, Clinton said.

Since June 2006, the five nuclear-armed, permanent members of the UN Security Council -- the U.S., Britain, France, Russia and China -- along with Germany have pursued negotiations with Iran. Iran is under four rounds of Security Council sanctions imposed between 2006 and 2010, and numerous restrictions by individual countries.

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