

## ISSUE BRIEF

# How Iran Will Cope with US Sanctions

NOVEMBER 2018 HOLLY DAGRES &amp; BARBARA SLAVIN

**A**fter more than a year of threatening to pull out of the nuclear agreement reached in 2015 by Iran and five world powers plus Germany, President Donald Trump announced in May 2018 that the United States was indeed leaving the Joint Comprehensive Plan of Action (JCPOA) and reimposed unilateral and secondary sanctions on Iran. The first wave on August 6, 2018, targeted automobiles, foreign currency, and gold.<sup>1</sup> The second wave, which went into effect on November 5, 2018, is more punitive and is aimed at Iran's oil exports and banks.

Even before they were reimposed, the sanctions had a harsh impact on the Iranian economy and in particular, the Iranian currency, the rial, which has plummeted compared to the US dollar. Western companies, including major European firms, have fled Iran to avoid jeopardizing their much more significant ties to the US financial system and the US market. But at the same time, European governments and Iran's major trading partners in Asia have underlined their continuing support for the JCPOA and sought to devise mechanisms for continuing to trade with Iran. With the help of its P4+1 partners—Britain, China, France, Germany, and Russia—Iran apparently intends to ride out this sanctions wave in hopes that Trump will be a one-term president and that his successor will return to the nuclear deal.

This issue brief will examine the ways in which Iran will cope with sanctions by recalling how it survived a more punitive multilateral wave led by the Obama administration at a time when Iran was more geopolitically isolated.

## Banking and Currencies

Countless Iranian sanctions stories have made international headlines. Among the most dramatic is that of Iranian-Turkish businessman Reza

The **South Asia Center's Future of Iran Initiative** aims to promote US-Iran engagement and seeks to promote a deeper understanding of Iran to inform US policymakers as they formulate new approaches to the Islamic Republic. This project provides a political safe space and a rigorously analytical point of departure in which both the most skeptical critics and the most optimistic assessors of Iran's intentions and ambitions can work together to build a bipartisan consensus on policy toward Iran, Iranians and the wider Middle East.

<sup>1</sup> Dagres, Holly, "First Wave of Resumed Iran Sanctions Targets Automobiles, Currency, Gold," Atlantic Council, August 2, 2018, <http://www.atlanticcouncil.org/blogs/iran-source/first-wave-of-resumed-iran-sanctions-targets-automobiles-currency-gold>.



South Pars Onshore Facilities near Asaluyeh City, December 11, 2013. Photo: Wikimedia Commons, Hamed Malekpour

Zarrab, who moved billions of dollars from Turkey to Iran through banks, businesses, and front companies. In November 2017, he signed a plea deal with US authorities that helped them convict the former deputy general manager of Turkey's state-controlled Halkbank of sanctions violations.<sup>2</sup>

In April 2018, it was revealed that Bahrain's Future Bank assisted Tehran in hiding \$7 billion in transfers from 2004 to 2015, by forging documents to conceal trade between Iran and foreign partners. One of the ways this was done was through "wire-stripping," which removes or changes the identifying information of a bank transfer. For example, one message from Iran's Bank Melli—one of the Bahraini bank's Iranian shareholders—instructed bankers at Future to not mention the Iranian bank name or code reference number, and

to avoid routing the transaction through New York. Wire-stripping is a common circumvention scheme.<sup>3</sup>

Similarly, Pilatus Bank, a Maltese private bank, evaded sanctions from 2006 to 2014. Pilatus laundered more than \$115 million from a Western bank to Iranian companies via a Venezuelan housing project. The bank's owner, Ali Sadr—an Iranian national—used a Saint Kitts and Nevis passport with a United Arab Emirates (UAE) address.<sup>4</sup> To get around the 2012 sanctions, which affected Iran's Central Bank as well as a number of other Iranian financial institutions, Iran also opened private banks in Iraq—often technically owned by Iraqi, Lebanese, or Syrian citizens.<sup>5</sup>

Sadr's story is an example of how wealthy Iranians with ties to the Iranian government have used passport-for-investment schemes. Small countries—includ-

2 Agrawal, Nina, "Banker in Iran sanctions trial found guilty," *Los Angeles Times*, January 3, 2018, <http://www.latimes.com/nation/la-na-iran-sanctions-zarrab-20180103-story.html>.

3 Mekhennet, Souad, and Joby Warrick, "Billion-dollar Sanctions-busting Scheme Aided Iran, Documents Show," *Washington Post*, April 3, 2018, [https://www.washingtonpost.com/world/national-security/billion-dollar-sanctions-busting-scheme-aided-iran-documents-show/2018/04/03/37be988a-3356-11e8-94fa-32d48460b955\\_story.html](https://www.washingtonpost.com/world/national-security/billion-dollar-sanctions-busting-scheme-aided-iran-documents-show/2018/04/03/37be988a-3356-11e8-94fa-32d48460b955_story.html).

4 O'Murchu, Cynthia, "The Maltese connection with Iran sanctions busting," *Financial Times*, April 5, 2018, <https://www.ft.com/content/14f961b6-3281-11e8-b5bf-23cb17fd1498>.

5 Khorrami Assl, Nima, "Iraq makes sanctions against Iran ineffective," *Guardian*, January 27, 2012, <https://www.theguardian.com/commentis-free/2012/jan/27/iraq-sanctions-iran-ineffective>.

ing Saint Kitts and Nevis, the Comoros Islands, and Antigua—are commonly used to evade sanctions.<sup>6</sup> Iranian nationals essentially bought passports in these countries to register companies abroad and open bank accounts. Though the Iranian government doesn't recognize dual nationality or formally allow second passports, the Iranian government quietly permitted high-profile businessmen to acquire them.<sup>7</sup>

The Comoros Islands, a small country off the coast of Africa, has more than 1,000 passport holders with Iran listed as their birthplace. Many of the passports were obtained from 2008 to 2017, with the majority purchased at the height of multilateral sanctions. The Comoros government eventually cancelled the passports of more than 100 Iranian nationals and broke diplomatic ties with Iran. In 2016, it sought closer ties to wealthy Arab countries such as Saudi Arabia.<sup>8</sup>

Currency is another major roadblock for Iran trade. Speaking to a small group of journalists and Iran analysts in New York on September 29, Iranian Foreign Minister Mohammad Javad Zarif said Iran and its trading partners would use their own currencies in bilateral trade and settle any imbalances at the end of a specified period in a non-dollar currency. "More and more people are interested in avoiding the dollar in their transactions," Zarif said. "Sell stuff in your own currency, buy stuff in the other country's currency, and at the end of a specific period, balance it out in a non-dollar currency. It's quite possible and may even be profitable."<sup>9</sup>

Russia, which is also under US sanctions because of Ukraine and the use of chemical agents in assassina-

tion plots, among other reasons, has often spoken with Iran about moving away from the US dollar. There have been preparations for a "regional integrated payment network" including former Soviet states in Central Asia in which Turkey might also participate.<sup>10</sup>

China, the biggest purchaser of Iranian oil and Iran's largest trading partner, has recently set up an oil-purchasing platform denominated in yuan.<sup>11</sup> While Iran is not among the top reasons that Beijing is trying to launch this contract, the bourse may prove useful.<sup>12</sup> Similarly, European Commission President Jean-Claude Juncker has said that the European Union plans to increase the use of the euro in international trade, especially for oil and gas purchases.

For months, Europe has been looking for an alternative electronic money transfer system that cannot be blocked by the US Treasury Department. Since commercial banks can no longer transfer funds to Iran's Central Bank and many other designated financial institutions, Europe is becoming more reliant on its central banks—with the assumption that the Trump administration would never sanction a European central bank. According to NBC News, "Under that scheme, a central bank would collect hundreds or even thousands of planned transactions and 'bundle' them together, sending the funds to Iran in one lump sum that would then be redistributed to the intended recipients in Iran."<sup>13</sup>

As part of this circumvention mechanism, Europe is seeking a payment mechanism not dependent on the US dollar. Europeans have been discussing for months creation of a "special purpose vehicle" (SPV) to help

6 Hassanzade Ajiri, Denise, "Iranian in name only: Dual nationals hide Iran ties to avoid US sanctions," *France24*, September 7, 2018, <https://www.france24.com/en/20180830-iranian-dual-nationals-hide-iran-us-sanctions-ali-sadr-hasheminejad-malta-galizia>.

7 Lewis, David, and Bozorgmehr Sharafedin, "As sanctions bit, Iranian executives bought African passports," *Reuters*, June 29, 2018, <https://www.reuters.com/investigates/special-report/iran-passports-comoros/>.

8 Ibid.

9 Comments to Barbara Slavin and others in New York on September 29, 2018.

10 Motamedi, Maziar, "Russia-led regional payment network could blunt US sanctions on Iran," *Al-Monitor*, August 21, 2018, <https://www.al-monitor.com/pulse/originals/2018/08/iran-russia-regional-payment-network-sanctions-pressure.html>.

11 Chatterjee, Sumeet and Meng Meng, "Exclusive: China taking first steps to pay for oil in yuan this year - sources," *Reuters*, March 29, 2018, <https://www.reuters.com/article/us-china-oil-yuan-exclusive/exclusive-china-taking-first-steps-to-pay-for-oil-in-yuan-this-year-sources-idUSKBN1H51FA>.

12 Hong, Brendon, "China: Iran's Lifeline to Overcome Oil Sanctions," *Atlantic Council*, October 3, 2018, <http://www.atlanticcouncil.org/blogs/iransource/china-iran-s-lifeline-to-overcome-oil-sanctions>.

13 Lederman, Josh and Dan De Luce, "How Europe plans to skirt Trump's sanctions and keep doing business with Iran," *NBC News*, September 4, 2018, <https://www.nbcnews.com/politics/national-security/how-europe-plans-skirt-trump-s-sanctions-keep-doing-business-n906161>.

European countries legally conduct transactions with Iran.<sup>14</sup> On the sidelines of the United Nations General Assembly, European Union (EU) high representative for foreign affairs and security policy Federica Mogherini announced plans for an SPV after talks with the P4+1. The group issued a statement saying that through this mechanism, they could “protect the freedom of their economic operators to pursue legitimate business with Iran.” The system would “facilitate payments related to Iran’s exports [including oil] and imports, which will assist and reassure economic operators pursuing legitimate business with Iran,” the statement said.<sup>15</sup> While major corporations will be unlikely to use this mechanism, the SPV could facilitate humanitarian and other lawful trade with Iran via small and medium-sized enterprises.

Interestingly, Iran recently authorized mining of Bitcoin and other cryptocurrencies. As this issue brief was being written, the Central Bank of Iran was drafting a policy framework for cryptocurrencies to be used for foreign trade.<sup>16</sup> There was even talk of Iran launching its own national cryptocurrency (although countries such as Venezuela have had disappointing results.) According to Iranian officials, it would be similar to Bitcoin but would only be available for use by Iranian banks and companies.<sup>17</sup>

Iranian nationals also rely on *hawala*, or *havaleh* in Persian, a traditional form of banking in which a *sarafi* or currency exchange transfers chunks of cash to banks. Typically the money is transferred to banks in countries such as Turkey and the UAE. The funds are then wire-transferred to a designated bank account in the West, including the United States. In this way, the Iranian origin is untraceable.<sup>18</sup> In October, Reuters re-

ported that Turkey had arrested 417 suspects in a money-laundering scheme that transferred \$419 million in foreign currency to 28,088 bank accounts, mostly belonging to Iranians living in the United States.<sup>19</sup>

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### Iran Offers Incentives to Maintain Oil Exports

The 2012 multilateral sanctions regime managed to suppress Iranian oil exports by more than one million barrels a day.<sup>20</sup> From June to September 2018, Iranian oil exports fell by about 600,000 bpd, or more than 25 percent.<sup>21</sup> The pace of the reduction is higher than initially anticipated, and the total is expected to drop further.

The Trump administration asserts that it would like Iran’s oil exports to be reduced to zero. Indeed, European companies did completely stop importing Iranian oil from 2012 to 2015 when international pressure on Iran to negotiate curbs on its nuclear program was at its height and the EU formally banned such imports. However, this goal is unenforceable in the current sit-

14 Buck, Tobias, David Koehane, Michael Peel, and Henry Mance, “EU seeks to bypass US sanctions on Iran with trade finance tool,” *Financial Times*, September 14, 2018, <https://www.ft.com/content/04ef404e-b826-11e8-b3ef-799c8613f4a1>.

15 “Iran nuclear deal: Plan put forward to dodge US sanctions,” *BBC News*, September 25, 2018, <https://www.bbc.com/news/world-middle-east-45634448>.

16 Gogo, Jeffrey, “Bitcoin Mooned Temporarily In Iran After Government Okayed Mining,” *Bitcoin.com*, September 5, 2018, <https://news.bitcoin.com/bitcoin-hits-24000-in-iran-after-government-okays-mining/>.

17 Cuthbertson, Anthony, “Iran plans national cryptocurrency to evade US sanctions,” *Independent*, August 29, 2017, <https://www.independent.co.uk/life-style/gadgets-and-tech/news/iran-national-cryptocurrency-us-sanctions-bitcoin-trump-a8512596.html>.

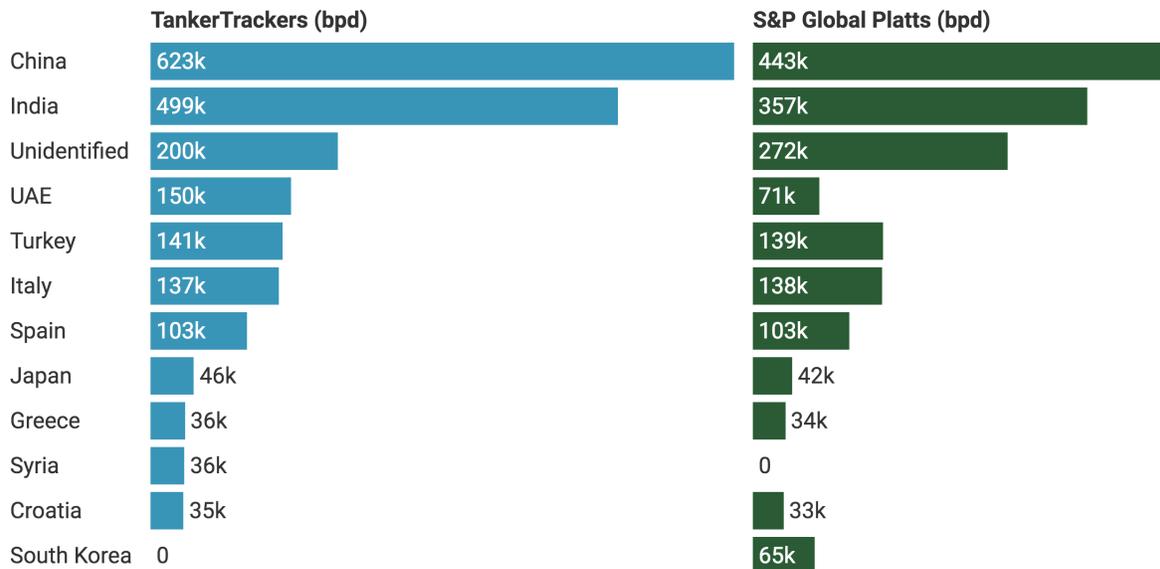
18 Fifield, Anna, “How Iranians are avoiding sanctions,” *Financial Times*, April 14, 2008, <https://www.ft.com/content/6ca69788-0a48-11dd-b5b1-0000779fd2ac>.

19 “Turkey Arrests 417 In Money Laundering Probe Mostly Involving Iranians,” Reuters, October 2, 2018, <https://en.radiofarda.com/a/turkey-arrests-417-in-money-laundering-probe-iranians/29521522.html>.

20 Domm, Patti, “Iran may try diplomacy but it could circumvent Trump sanctions with help from China and Russia,” *CNBC*, May 8, 2018, <https://www.cnb.com/2018/05/08/iran-may-try-diplomacy-but-it-could-circumvent-trump-sanctions.html>.

21 Krauss, Clifford, “Trump Hit Iran With Oil Sanctions. So Far, They’re Working,” *New York Times*, September 19, 2018, <https://www.nytimes.com/2018/09/19/business/energy-environment/iran-oil-sanctions.html>.

## Iran Crude Oil Exports (Sep 2018)



Source: [bourseandbazaar.com](http://bourseandbazaar.com) *Iran's Oil Exports May Be More Resilient Than Headlines Suggest*

uation.<sup>22</sup> Major Iranian oil purchasers are reducing imports, but not to zero, and waiting to see what sort of waivers the Trump administration will grant.<sup>23</sup>

Tehran has offered a variety of incentives to importers. It is discounting prices for crude and offering in some cases “practically free shipping.”<sup>24</sup> Iran has also resorted to providing its own insurance for oil cargos as major international insurers are now barred from Iran by sanctions. Tehran is also using its own tankers to replace those of the big multinational shipping companies. In July, Iran reportedly insured its India exports on tankers operated by the National Iranian Tanker Company (NITC).<sup>25</sup>

For New Delhi, giving in to US demands is complicated. Its close proximity to Iran helps reduce transport costs, and India’s refineries are configured to specifically process Iranian oil, making it harder to switch to other suppliers. According to *CNBC*, “Other senior [Indian] officials have said outright that the country will not fully cut their Iranian imports and that doing so would be impossible.”<sup>26</sup>

Some countries have decided not to give in to US pressure. Chinese oil companies—state oil trader Zhuhai Zhenrong Corp and Sinopec Group, Asia’s biggest refiner—are moving their cargoes onto NITC tankers.<sup>27</sup> In July, all seventeen tankers carrying Iranian crude

22 Domm, Patti, “Iran may try diplomacy but it could circumvent Trump sanctions with help from China and Russia,” *CNBC*, May 8, 2018, <https://www.cnbc.com/2018/05/08/iran-may-try-diplomacy-but-it-could-circumvent-trump-sanctions.html>.

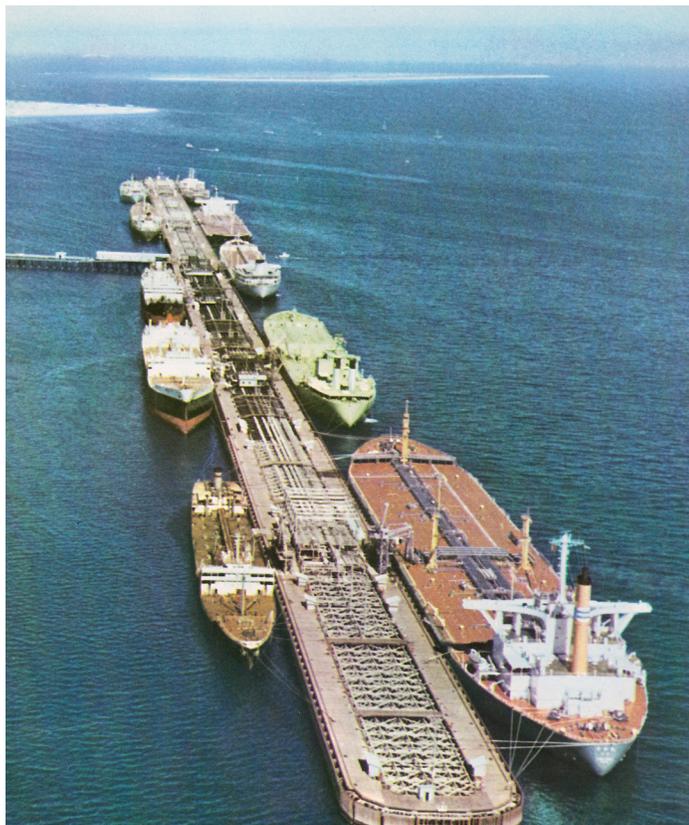
23 Lederman, Josh and Dan De Luce, “How Europe plans to skirt Trump’s sanctions and keep doing business with Iran,” *NBC News*, September 4, 2018, <https://www.nbcnews.com/politics/national-security/how-europe-plans-skirt-trump-s-sanctions-keep-doing-business-n906161>.

24 Turak, Natasha, “India may not be able to cut Iranian oil imports, despite U.S. sanctions demands,” *CNBC*, September 7, 2018, <https://www.cnbc.com/2018/09/07/india-may-not-be-able-to-cut-iranian-oil-imports-despite-us-sanctions-demands.html>.

25 Verma, Nidhi, “Iran offers India oil cargo insurance, ships to boost sales: sources,” *Reuters*, July 26, 2018, <https://in.reuters.com/article/india-iran-oil-insurance/iran-offers-india-oil-cargo-insurance-ships-to-boost-sales-sources-idINKBN1KG29Q>.

26 Turak, Natasha “India may not be able to cut Iranian oil imports, despite U.S. sanctions demands,” *CNBC*, September 7, 2018, <https://www.cnbc.com/2018/09/07/india-may-not-be-able-to-cut-iranian-oil-imports-despite-us-sanctions-demands.html>.

27 Aizhu, Chen, “Exclusive: China shifts to Iranian tankers to keep oil flowing amid U.S. sanctions,” *Reuters*, August 20, 2018, <https://uk.reuters.com/article/us-china-iran-oil-shipping/exclusive-china-shifts-to-iranian-tankers-to-keep-oil-flowing-amid-u-s-sanctions-sources-idUKKCNIL50RZ>.



Large tankers loading at Kharg oil terminal, which handles significant quantity of Iran's crude exports.  
Photo Credit: Wikimedia Commons, National Iranian Oil Company/NIOC

to China belonged to the NITC.<sup>28</sup> Interestingly, Iran recently underwent a gap of not delivering oil to China for eighteen days, the longest in three years. Though it

is unclear what the cause was, *Bloomberg* speculated it had to do with negotiating better terms—something the Chinese also did in 2012.<sup>29</sup>

Some Iranian oil importers have offered to pay Iran through barter. Even the EU is considering an oil-for-goods scheme, according to Iranian officials.<sup>30</sup> During the prior period, payment for Iranian oil was frozen in foreign bank accounts or used as credit for purchases of local goods and services. This was particularly the case in regard to China.<sup>31</sup>

Russia is considering an oil-for-goods scheme.<sup>32</sup> Russia has also contemplated buying Iranian oil and renaming it as Russian before reselling to third countries.<sup>33</sup> These sorts of oil swaps are common in the oil industry even in a non-sanctions environment. There is also the suggestion that Iran could send oil to foreign ports, blend it there with non-Iranian crude and resell it.<sup>34</sup> At the height of multilateral sanctions, Tehran would forge documents that made Iranian oil look like it came from Iraq. Iranians would also do business with European companies in Turkey and list the UAE as the final destination for shipping before the documents were changed and goods shipped to Iran's Bandar Abbas port.<sup>35</sup>

During the last round of sanctions, Iran was forced to store unsold crude on offshore tankers to keep production high since it is costly to resume oil pumping once wells are shut down.<sup>36</sup> According to *Bloomberg*, Iran has resorted to this tactic again, storing crude on NITC supertankers off Kharg Island. Thus far, Tehran

28 Aizhu, Chen, "China defies U.S. pressure as EU parts way with Iranian oil," Reuters, August 20, 2018, <https://www.reuters.com/article/us-iran-oil/china-defies-u-s-pressure-as-eu-parts-ways-with-iranian-oil-idUSKCN1L51GB>.

29 Lee, Julian, "Iran Endures Longest Gap in China Oil Buying in At Least 3 Years," *Bloomberg*, September 13, 2018, <https://www.bloomberg.com/news/articles/2018-09-13/iran-endures-longest-gap-in-china-oil-buying-in-at-least-3-years>.

30 "Iranian Officials Revisit 'Oil For Goods' Scheme As Way Around U.S. Sanctions," *Radio Farda*, July 19, 2018, <https://en.radiofarda.com/a/iranian-officials-revisit-oil-for-goods-scheme-as-way-around-u-s-sanctions/29376720.html>.

31 Slavin, Barbara, "Iran turns to China, Barter, to Survive Sanctions," *Atlantic Council*, November 2011, [https://www.files.ethz.ch/isn/137386/111011\\_ACUS\\_IranChina.pdf](https://www.files.ethz.ch/isn/137386/111011_ACUS_IranChina.pdf).

32 "Russia studying possible oil-for-goods deal with Iran: Novak," Reuters, July 13, 2018, <https://www.reuters.com/article/us-russia-iran-novak/russia-studying-possible-oil-for-goods-deal-with-iran-novak-idUSKBN1K30ZB>.

33 Lederman, Josh and Dan De Luce, "How Europe plans to skirt Trump's sanctions and keep doing business with Iran," *NBC News*, September 4, 2018, <https://www.nbcnews.com/politics/national-security/how-europe-plans-skirt-trump-s-sanctions-keep-doing-business-n906161>.

34 "From Makeover for Ships to Turning off Trackers: Iran's Tried and Tested Tactics to Blunt US Sanctions," *AFP*, September 13, 2018, <https://www.news18.com/news/world/from-makeover-for-ships-to-turning-off-trackers-irans-tried-and-tested-tactics-to-blunt-us-sanctions-1876751.html>.

35 "Around the block," *Economist*, March 30, 2013: <https://www.economist.com/business/2013/03/30/around-the-block>.

36 Katzman, Kenneth, Iran Sanctions, *CRS Report RS20871*, Washington, DC: Library of Congress, Congressional Research Service, June 13, 2013, 53-54.

isn't storing the same amount of crude it did under previous sanctions, which was millions of barrels.<sup>37</sup> As of September 2018, there were two Iranian tankers reported floating off the coast of the UAE.<sup>38</sup>

At the height of the 2012 sanctions, Iranian oil tankers would turn off their tracking devices, repaint their ships and even rename them. With the help of satellite imagery, it has become evident that Iran is using this strategy again, with at least several tankers a month spotted without their tracking devices turned on. During the last round of sanctions, Iranian tankers would turn off trackers and transfer oil onto foreign tankers in the middle of the sea.<sup>39</sup> The *Financial Times* reported that at least seven Iranian tankers have stopped sending position signals since September 16, 2018. These ships are known as “ghost tankers.”<sup>40</sup>

Babak Zanjani, an Iranian oil tycoon working closely with the Islamic Revolutionary Guards Corps (IRGC), managed to evade sanctions during the prior wave through a “scheme to disguise the origins of Iranian oil and sell it on the open market, transferring millions of barrels from tanker to tanker.” Zanjani was arrested in 2013 and charged with embezzlement for “withholding \$1.9 billion in oil revenues” and is now facing the death penalty.<sup>41</sup>

## Neighbors and “Black Knights”

Iran relied heavily on neighboring Afghanistan and Iraq to circumvent prior sanctions. Afghan banks, in particular, were used to pay for Iranian imports. In 2012, the president of the Money Exchange Union in Afghanistan said that the rial “comes across in trucks,”

where it is then converted into US dollars. Afghan middlemen were making anywhere from five to seven percent commission.<sup>42</sup>

In September 2018, a money exchanger in Kabul told *Bloomberg* that he takes a taxi with suitcases full of cash to Iran via a remote border crossing. He reportedly transfers about \$220,000 in two to three trips. Since the traders have contacts and multiple entry visas, they are not questioned or stopped by Afghan border police. According to Khan Jan Alokozay, the deputy chairman of the Afghanistan Chamber of Commerce and Industries, “traders sell dollars on the black markets for rials in Iran and they smuggle the rials back to Afghanistan to sell them at its official rates in [border] provinces” since the rial is an accepted currency.<sup>43</sup>

As a result of this money exchange, Afghanistan is struggling with problems of its own. The US dollars smuggled into Iran are now causing a dollar shortage in Afghanistan. Traders in Afghan border provinces—traditionally known for their commerce with Iran—are also transferring dollars, which in turn has caused the value of the Afghani to depreciate. Reuters reports that as much as \$2 to \$3 million cross every day.<sup>44</sup> This is just an example of the many loopholes Iran uses to import gold and hard currency.

Iranians also purchase dollars in Iraq. About 2.6 million Iranians traveled to Iraq in 2017 as religious pilgrims, visiting sites sacred to Shia Muslims in Karbala and Najaf. The Iraqi government is trying to make it more difficult for Iranians to buy dollars through Iraqi exchange houses. At the same time, Iraq has sought waivers to allow it to continue to purchase Iranian oil

37 Dipaola, Anthony, and Julian Lee, and Alex Longley, “Iran Resorts to Storing Oil in Fleet of Supertankers, Again,” *Bloomberg*, September 12, 2018, <https://www.bloomberg.com/news/articles/2018-09-11/iran-resorts-to-floating-storage-for-its-oil-as-buyers-retreat>.

38 Tan, Florence, “Iran floats surplus oil as demand falls ahead of U.S. sanctions,” Reuters, September 13, 2018, <https://www.reuters.com/article/us-iran-oil/iran-floats-surplus-oil-as-demand-falls-ahead-of-u-s-sanctions-idUSKCN1LTOTD>.

39 “Around the block,” *Economist*, March 30, 2013, <https://www.economist.com/business/2013/03/30/around-the-block>.

40 Bozorgmehr, Najmeh and Anjali Raval, “Iran sends out ghost tankers as US oil sanctions loom,” *Financial Times*, September 22, 2018, <https://www.ft.com/content/d2c7105e-bcf0-11e8-8274-55b72926558f>.

41 Erdbrink, Thomas, “To This Tycoon, Iran Sanctions Were Like Gold,” *New York Times*, October 5, 2013, <http://www.nytimes.com/2013/10/05/world/middleeast/to-this-tycoon-iran-sanctions-are-like-gold.html>; “In Anti-Corruption Drive, A Billionaire Will Be ‘Definitely’ Hanged,” *Radio Farda*, July 20, 2018, <https://en.radiofarda.com/a/iran-corruption-zanjani-death-sentence-hanging/29378152.html>.

42 Lowrey, Annie and Matthew Rosenberg, “Iranian Currency Traders Find a Haven in Afghanistan,” *New York Times*, August 17, 2012, <https://www.nytimes.com/2012/08/18/world/middleeast/iranian-currency-flows-into-afghanistan-markets.html>.

43 Najafizada, Eltaf, “Trump’s Iran Sanctions Trigger a Booming Cash Smuggling Business,” *Bloomberg*, September 14, 2018, <https://www.bloomberg.com/news/articles/2018-09-13/trump-s-iran-sanctions-trigger-a-booming-cash-smuggling-business>.

44 Pandey, Ashutosh, “Afghanistan: Iran sanctions, dollar smuggling add to currency woes,” *Deutsche Welle*, August 8, 2018, <https://www.dw.com/en/afghanistan-iran-sanctions-dollar-smuggling-add-to-currency-woes/a-45138915>.

that fuels power plants responsible for generating 40 percent of Iraq's electricity.<sup>45</sup>

Most goods that were smuggled to Iran during the last round of sanctions went through the UAE and Oman, but when the Treasury Department cracked down, Tehran turned to Iraq. Incompetence and corruption on the part of the Iraqi government allow Iran to bypass many rules and regulations. Beyond supplying oil for electricity, Iran also has leverage because of its links to Iraqi Shia parties and militias.<sup>46</sup>

“Iran has heavily relied on front companies to do business in countries including China, Iraq, Liechtenstein, and the UAE.”

One often-overlooked tactic is the role of couriers or porters. Iraqi Kurds, for example, bring money and food to relatives in the Kurdish region of Iran. This can turn into a profitable business.<sup>47</sup> Porters, or *kolbar*, have been around for generations and have smuggled everything from cigarettes and electronics to alcoholic beverages. According to Iranian government data, some 68,000 *kolbar* special licenses were issued by the Interior Ministry for Iranian Kurds so they can avoid being stopped by border police. Since June 2018, they

are now being allowed to enter customs at semi-official borders with Iraq.<sup>48</sup>

Eastern European countries that don't share strong trade ties with Iran have also been conduits for sanctioned trade in the past. Countries such as Belarus, Hungary, and Romania looked at sanctions as a “lucrative opportunity” during the previous round of penalties and earned the nickname “black knights.”<sup>49</sup> It is unclear what role they might play during this sanctions period.

### Front Companies and Rationing

Iran has heavily relied on front companies to do business in countries including China, Iraq, Liechtenstein, and the UAE. According to reporter and Atlantic Council non-resident senior fellow Borzou Daragahi, this entailed “hiring outsiders as silent partners or registering under obscure names that didn't immediately raise flags.”<sup>50</sup> Iran has also used private companies in the UAE and Iraq owned by Arab citizens from Iraq, Lebanon, and Syria. These individuals purchase goods and legally ship them from the UAE and Iraq, and finally smuggle them through land or water routes to Iran.<sup>51</sup>

According to the deputy chairman of Iran's Chamber of Commerce, Industries, Mines, and Agriculture, Pedram Soltani, Iranian businessmen have been opening new companies under Chinese partners' names and trusting their assets to them in order to circumvent sanctions.<sup>52</sup> In 2013, it was reported by the *Wall Street Journal* that the IRGC had opened 150 front companies in Georgia under Georgian partners' names.<sup>53</sup>

45 Slavin, Barbara, “Without waivers, U.S. sanctions on Iran will cripple Iraq,” *Axios*, September 21, 2018, <https://www.axios.com/without-waivers-us-sanctions-on-iran-will-cripple-iraq-675d57c8-54a5-49c7-baf7-2a6cc43ab94c.html>.

46 Abdo, Genevieve, “Trump's Iran Sanctions Are Backfiring in Iraq,” *Politico*, August 14, 2018, <https://www.politico.com/magazine/story/2018/08/14/trumps-iran-sanctions-are-backfiring-in-iraq-219358>.

47 Hawramy, Fazel, “Iraqi Kurds throw lifeline to Iranian Kurds as sanctions begin to bite,” *Al-Monitor*, August 28, 2018, <https://www.al-monitor.com/pulse/originals/2018/08/iraq-iran-us-sanction-kurdistan.html>.

48 “Iran opening borders to kolbars in Kurdistan province,” *Rudaw*, June 6, 2018, <http://www.rudaw.net/english/middleeast/iran/060620182>; “Iran to license Kurdish cross-border smugglers,” *Rudaw*, August 6, 2018, <https://ekurd.net/iran-to-license-kurdish-cross-border-smugglers-2016-08-06>.

49 Kozhanov, Nikolay A., “U.S. Economic Sanctions against Iran: Undermined by External Factors,” *Middle East Policy* 18 (2011): 144-160. 145.

50 Daragahi, Borzou, “How Iran Can Evade Sanctions This Time,” *The Atlantic*, May 22, 2018, <https://www.theatlantic.com/international/archive/2018/05/iran-sanctions-trump-nuclear-turkey/560819/>.

51 Khorrami Assl, Nima, “Iraq makes sanctions against Iran ineffective,” *Guardian*, January 27, 2012, <https://www.theguardian.com/commentis-free/2012/jan/27/iraq-sanctions-iran-ineffective>.

52 “Iranian Officials Revisit ‘Oil For Goods’ Scheme As Way Around U.S. Sanctions,” *Radio Farda*, July 19, 2018, <https://en.radiofarda.com/a/iranian-officials-revisit-oil-for-goods-scheme-as-way-around-u-s-sanctions/29376720.html>.

53 Fassihi, Farnaz, Benoît Faucon and Jay Solomon, “As Sanctions Bite, Iranians Invest Big in Georgia,” *Wall Street Journal*, June 20, 2013, <https://www.wsj.com/articles/SB10001424127887323864304578320754133982778>.

One method to safeguard vital imports such as medicine has been used by Iran's Foreign Investments Company (FIC), which recently spent \$3 million to purchase a bankrupt pharmaceutical factory in France. The FIC has dozens of cash accounts and investments amounting to \$5 billion in twenty-two countries. It is prioritizing assets to insure access to key goods, services, and technology. FIC specifically bought the French factory to make sure that Tehran can obtain medicine for infectious diseases. Such imports were problematic in the past despite an exemption for humanitarian needs.<sup>54</sup> FIC has investments "in an Afghan trading house, a Brazilian auto-parts plant, a German pipeline company and even an Omani lease finance firm" which is shared with Saudi Arabia. FIC also invested in a UAE company to buy power-generation equipment.<sup>55</sup>

To mitigate the impact of sanctions on ordinary Iranians, the Iranian parliament is considering legislation to increase imports of essential goods and sell them at subsidized prices. Meat, rice, sugar, and bread could be distributed via rationing coupons popularized during the Iran-Iraq War.<sup>56</sup> These measures would help the most vulnerable Iranians, the rural poor. In July, Iran's Planning and Budget Organization discussed an "executive package" that would help mitigate the impact of sanctions.

As Western companies exit Iran, China is likely to be the biggest beneficiary. When France's Total quit the South Pars gas project in August, China's National Petroleum Corporation was considered as a replacement, even though its stake would increase to 80 percent. Similarly, now that India is considering pulling out of the Chabahar port project in which it had pledged a \$500 million investment to build two berths, China

could step in.<sup>57</sup> Meanwhile, fishermen in the Persian Gulf are complaining about the presence of Chinese boats at their fishing grounds.<sup>58</sup>

Most Iranians regard Chinese products as standard compared to Western goods, but remember how quickly they took over the market a decade ago.<sup>59</sup> When Chinese and Indian pharmaceuticals and drug ingredients flooded Iran during the last round of sanctions, many Iranians complained that the drugs either didn't work or caused serious side effects.<sup>60</sup>

## Conclusion

Through its four decades of existence, the Islamic Republic of Iran has shown its ability to survive economic strangulation. It is dusting off its old sanctions-circumvention playbook, but its people are bound to experience considerable pain that will only compound grievances about a host of social, political, and economic ills.

Because of the Trump administration's continuous threats to leave the JCPOA and re-implement sanctions, Iran has had at least a year to plan its response. Although Iran's "detection systems and knowledge are leaps and bounds ahead" of where they were, according to Farhad Alavi, a sanctions-compliance attorney in Washington, it doesn't mean that the government has come up with significant or better alternatives since the 2012 round.<sup>61</sup>

Once again, the Iranian government will blame the United States for the sanctions—an argument that takes on new strength because it was the United States, not Iran, that first violated the nuclear deal. But the Iranian people were already disappointed, before Trump took

54 Faucon, Benoît, "Iran Develops a \$5 Billion Weapon to Fight Sanctions," *Wall Street Journal*, September 9, 2018, <https://www.wsj.com/articles/iran-develops-a-5-billion-weapon-to-fight-sanctions-1536494400>.

55 Ibid.

56 "Iran Considers Rationing, Distributing Food Coupons, As Sanctions Bite Harder," *Radio Farda*, September 3, 2018, <https://en.radiofarda.com/a/iran-considers-rationing-distributing-food-coupons-as-sanctions-bite-harder/29468399.html>.

57 Hong, Brendon, "China: Iran's Lifeline to Overcome Oil Sanctions," *Atlantic Council*, October 3, 2018, <http://www.atlanticcouncil.org/blogs/iransource/china-iran-s-lifeline-to-overcome-oil-sanctions>.

58 Gambrell, Jon, "Iran looks warily to China for help as US sanctions resume," *AP*, September 12, 2018, <https://www.apnews.com/b664060c6d-5c46f3917ebb920f2af712>.

59 Ibid.

60 Namazi, Siamak, "Blocking Medicine to Iran," *New York Times*, March 1, 2013, <https://www.nytimes.com/2013/03/02/opinion/blocking-medicine-to-iran.html>.

61 Daragahi, Borzou, "How Iran Can Evade Sanctions This Time," *The Atlantic*, May 22, 2018, <https://www.theatlantic.com/international/archive/2018/05/iran-sanctions-trump-nuclear-turkey/560819/>.

office, that they saw so little benefit from the JCPOA in part because of endemic domestic corruption and mismanagement. A key question now is whether the vaunted patience of the Iranian people will fade before the sanctions do.

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