December 2007

IRAN SANCTIONS

Impact in Furthering U.S. Objectives Is Unclear and Should Be Reviewed

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Highlights

Highlights of GAO-08-58, a report to the Ranking Member, Subcommittee on National Security and Foreign Affairs, Committee on Oversight and Government Reform, House of Representatives

Why GAO Did This Study

The 2006 U.S. National Security Strategy stated that the United States faces challenges from Iran, including Iran's proliferation efforts and involvement in international terrorism. To address these concerns, the United States employs a range of tools, including diplomatic pressure, a military presence in the Gulf, and sanctions. A U.S. sanction is a unilateral restriction or condition on economic activity imposed by the United States for reasons of foreign policy or national security.

We were asked to review (1) U.S. sanctions targeting Iran and their implementation, (2) reported sanction impacts, and (3) factors limiting sanctions. To conduct the review, we assessed trade and sanction data, information on Iran's economy and energy sector, and U.S. and international reports on Iran, and discussed sanctions with U.S. officials and Iran experts.

What GAO Recommends

Congress should consider requiring the National Security Council, in collaboration with key agencies, to (1) assess data on Iran sanctions and complete an overall baseline assessment of sanctions, (2) develop a framework for ongoing assessments, and (3) periodically report the results to Congress.

The Department of the Treasury commented that it assesses the impact of financial sanctions. We now cite Treasury's assessments in our report but conclude no overall assessment of all U.S. sanctions has been conducted.

To view the full product, including the scope and methodology, click on GAO-08-58. For more information, contact Joseph A. Christoff at (202) 512-8979 or christoffj@gao.gov.

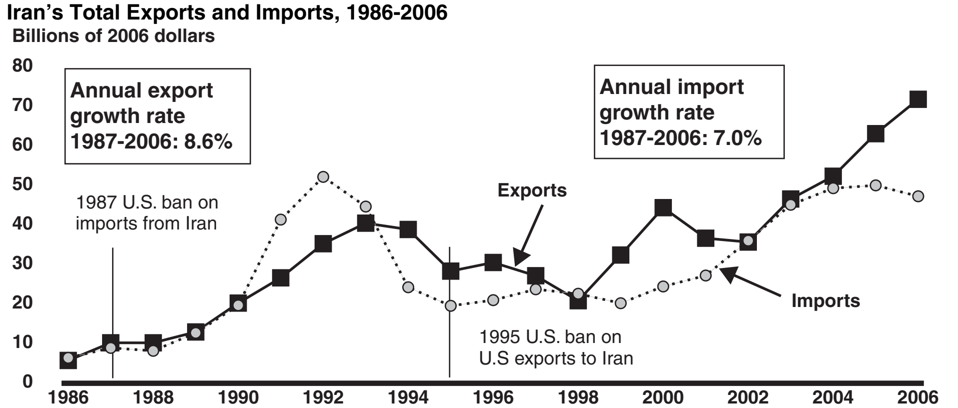
What GAO Found

Since 1987, U.S. agencies have implemented numerous sanctions against Iran. First, Treasury oversees a ban on U.S. trade and investment with Iran and filed over 94 civil penalty cases between 2003 and 2007 against companies violating the prohibition. This ban may be circumvented by shipping U.S. goods to Iran through other countries. Second, State administers laws that sanction foreign parties engaging in proliferation or terrorism-related activities with Iran. Under one law, State has imposed sanctions in 111 instances against Chinese, North Korean, Syrian, and Russian entities. Third, Treasury or State can use financial sanctions to freeze the assets of targeted parties and reduce their access to the U.S. financial system.

U.S. officials report that U.S. sanctions have slowed foreign investment in Iran's petroleum sector, denied parties involved in Iran's proliferation and terrorism activities access to the U.S. financial system, and provided a clear statement of U.S. concerns to the rest of the world. However, other evidence raises questions about the extent of reported impacts. Since 2003, the Iranian government has signed contracts reported at about $20 billion with foreign firms to develop its energy resources. Further, sanctioned Iranian banks may fund their activities in currencies other than the dollar. Moreover, while Iran halted its nuclear weapons program in 2003, according to the November 2007 National Intelligence Estimate, it continues to enrich uranium, acquire advanced weapons technology, and support terrorism. Finally, U.S. agencies do not systematically collect or analyze data demonstrating the overall impact and results of their sanctioning and enforcement actions.

Iran's global trade ties and leading role in energy production make it difficult for the United States to isolate Iran and pressure it to reduce proliferation and support for terrorism. For example, Iran's overall trade with the world has grown since the U.S. imposed sanctions, although this trade has fluctuated. Imports rose sharply following the Iran-Iraq war in 1988 and then declined until 1995; most export growth followed the rise in oil prices beginning in 2002 (see figure). This trade included imports of weapons and nuclear technology. However, multilateral UN sanctions began in December 2006.

Iran's Total Exports and Imports, 1986-2006



Source: GAO analysis of IMF Direction of Trade Statistics, May 2007.