



In Brief: The Financial Restrictions (Iran) Order 2011

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Comprehensive financial sanctions were imposed on Iran by Statutory Instrument 2775, *The Financial Restrictions (Iran) Order 2011*, to be debated on a motion to approve on 13 December 2011.

The Government [announced its intention](#) to impose financial restrictions on 21 November, after the publication of the International Atomic Energy Agency's (IAEA) [latest report on Iran](#), which contained stronger indications than any previous report that Iran was working on military applications for its nuclear programme. Evidence about the potential military aspects of the Iranian programme was in an unpublished annex to the report. One ex-IAEA official claimed that the IAEA has concluded that Iran "has sufficient information to design and produce a workable implosion nuclear device". However, the report did not prove definitively that Iran is working on a nuclear weapon.

The [UK sanctions](#) mean that since Monday 21 November 2011, all UK credit and financial institutions have been required to cease business relationships and transactions with all Iranian banks, including the Central Bank of Iran, and their branches and subsidiaries. It is the first time that the UK has imposed such comprehensive sanctions against a country's financial sector.

According an [FCO press release dated 21 November 2011](#), the sanctions will hinder the Iranian nuclear programme:

Iranian banks play a crucial role in providing financial services to individuals and entities within Iran's nuclear and ballistic missile programmes, as companies carrying out proliferation activities require banking services. London is an important global financial centre and the UK's financial restrictions will make it more difficult for Iranian banks to utilise the international financial system in support of Iran's nuclear and ballistic missile programmes. This measure will protect the UK financial sector from being unknowingly used by Iranian banks for proliferation related transactions.

Also on 21 November, the US [named Iran, with its central bank](#), as a "territory of prime money-laundering concern". It was hoped that this would discourage business being conducted through the Iranian central bank. The US did not choose an outright ban because it feared that such a move could push up the oil price abruptly.

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On 1 December, the [EU announced further restrictions on Iran](#), adding 143 entities and 37 persons to the list of those subject to a freeze of their assets in the EU and to a ban from entering the Union.

Some arguments for the imposition of sanctions:

- It might dissuade Iran from acquiring nuclear weapons

Although there is little sign so far that the Iranian leadership has any intention of abandoning its nuclear programme, there are signs of division within the leadership. It is conceivable that increasing the economic pressure on Iran might exacerbate those divisions and increase the possibility that a pro-engagement tendency within the government could gain the upper hand. That said, both factions within the Iranian leadership are so far fully committed to the programme. President Ahmadinejad has occasionally made some notable conciliatory comments but not, as far as I know, about the nuclear programme.

- It protects the nuclear non-proliferation treaty

Proponents of sanctions argue that the international community must act when it fears that a country is in danger of breaching its obligations under the Treaty on the Non-Proliferation of Nuclear Weapons, also known as the NPT. Whether or not the imposition of sanctions has the desired effect of preventing Iran from acquiring nuclear weapons, their use demonstrates to other countries that might be considering acquiring them that breaching the NPT has serious costs.

- It is a way of demonstrating the solidarity of the West

The ability of countries allied against Iran to act together, taking the lead from the United States or the UN Security Council, strengthens the bonds between those countries and shows other countries that might 'step out of line' that the West will join forces against them.

- Sanctions are not military action

Whether or not they work, many argue that sanctions must be carried out if the only alternative is military action. With the economies of the industrialised world in such a difficult condition, military action in Iran could do extreme damage. Oil prices could be forced up dramatically by a blockade of the Straits of Hormuz and by attacks on the Gulf States such as Saudi Arabia and the UAE. Politically, a military strike by the West or by Israel against Iran would be extremely destabilising in the Middle East and might lead to a wider regional conflict with unforeseeable consequences.

Arguments against sanctions

- Sanctions only hurt the Iranian people

So far, the sanctions on Iran have had a damaging effect on the Iranian economy, probably increasing inflation and reducing the living standards of the average Iranian. Meanwhile, there is no sign that they have altered the Iranian regime's plans. Imposing sanctions on the Iranian central bank may do significant extra damage to the Iranian economy.

- Sanctions have strengthened criminal networks

Some have suggested that those who want to carry out Iranian trade or get materials for the nuclear programme into Iran have been forced by sanctions to find illegal methods for doing

so. That may take large quantities of business away from legitimate channels and give it to criminals.

- Sanctions may unite Iranians behind the government

Sanctions may make it easier for the regime to blame the West for economic problems, strengthening the hand of hardliners within Iran. Uniting the Iranians against foreigners is a favourite tactic for the Iranian regime to bolster its own support.

- Sanctions that don't work demonstrate the impotence of the West

For sanctions to demonstrate the solidarity of the West and to protect the NPT, they need to be seen to work. If Iran appears not to be troubled by them, then they will not work so well. With a high oil price, the Iranian regime is in a strong position to resist economic pressure.

- Sanctions damage the economies of both sides

Prohibiting countries from doing business with Iran has a damaging effect on their economies as well. Many countries oppose sanctions because they do valuable business with Iran.

Other relevant Library notes:

[*Power struggle in Iran*](#), July 2011

[*In Brief: The IAEA report and action against Iran*](#), November 2011