



U.S. Weighs More Iran Sanctions Over Potential Trade With Europe

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The Trump administration is weighing sanctions against the Iranian financial body set up as a go-between for humanitarian trade with Europe, a move likely to sever the economic and humanitarian lifeline that France, Germany and the U.K. have sought to create for Tehran.

The U.S. measures would target the Special Trade and Finance Institute, which Iran established as a counterpart to the European mechanism known as Instex, according to a senior administration official who asked not to be identified discussing internal deliberations.

The official said the STFI is essentially an extension of Iran's central bank, which already is covered by U.S. sanctions and, according to the administration, hasn't implemented minimum global safeguards against money laundering and terrorism financing.

European countries established Instex in January to help shield limited trade with Iran from U.S. sanctions imposed after President Donald Trump withdrew from the multinational Iran nuclear deal a year ago. The new sanctions, if they take effect, would probably derail faltering European efforts to sustain some trade with Iran by avoiding the use of U.S. dollars or the American financial system.

Such a move -- still in the early planning stages -- would exacerbate divisions with European nations that have chafed against the Trump administration's "maximum pressure" campaign against Iran. It would be the latest effort meant to force the Islamic Republic back to the negotiating table to discuss a deal stronger than the Joint Comprehensive Plan of Action, the 2015 agreement that limited Iran's nuclear program in exchange for sanctions relief.

"If they are looking at sanctioning STFI, you're essentially trying to kill Instex through the back door," said [Ellie Geranmayeh](#), a senior policy fellow at the European Council on Foreign Relations, referring to the Iranian body. "If the U.S. were to take action that kills Instex on arrival, my sense is there will be even more political backing in Europe to oppose the U.S."

The sanctions deliberations come as German Foreign Minister Heiko Maas visits Tehran. Iranian Foreign Minister Javad Zarif said Monday the two were having "frank talks" about how Iran could still get the economic benefits it expected by agreeing to the nuclear accord.

Yet in a tacit acknowledgment of the effectiveness of U.S. sanctions, European nations have significantly scaled back their ambition for the mechanism, saying trade through it would be limited only to transactions covering humanitarian goods.

U.S. sanctions against Iran already include carve-outs for humanitarian transactions. But European nations argue that Instex is needed to provide European companies and banks stronger assurances that they won't be hit by U.S. sanctions even if they limit themselves to humanitarian purposes.

While the Instex mechanism is relatively obscure and would probably be used in limited cases, its opponents say that letting it survive could create a powerful economic tool later that could deal a blow to the effectiveness of U.S. sanctions more broadly.

One possibility, they say, is that Trump could lose re-election in 2020 and a Democratic president could look the other way as European nations used Instex for a wider range of trade with Iran, even as sanctions remained in place.

Another possibility is that other nations, including American adversaries, could use Instex as a model in the future and avoid the U.S. financial system entirely.

“The development of Instex is really worrying for U.S. sanction policy in the long run,” said Emma Ashford, a research fellow at the Cato Institute in Washington. “Instex sets up a framework other countries can use in the future.”

Officials at the State Department and the National Security Council declined to comment on the possibility of new sanctions.

Nuclear Deal

Punishing the STFI could doom Instex because it raises the possibility of sanctions risk to anyone who's a part of the European mechanism. The initiative drives home a letter sent by the U.S. Treasury Department in early May to Per Fischer, the president of Instex, arguing that the financial body could face sanctions.

European officials say that establishing Instex is imperative to keep Iran abiding by the nuclear deal, which they credit with restraining the Islamic Republic's nuclear capabilities. They're especially eager to get it up and running before early July, when Iran has threatened to abandon the accord unless it sees greater benefits from abiding by its terms.

Visa Restrictions

The U.S. has sent conflicting signals about its attitude toward Instex, with some officials taking a hard line and others saying it could be acceptable. During a stop in Berlin on May 31, Secretary of State Michael Pompeo said the vehicle was “unproblematic” as long as it's used to facilitate trade in humanitarian goods and other transactions the U.S. has exempted from sanctions.

Yet Republican hawks in the administration and Congress disagree, saying that channels for humanitarian trade with Iran already exist. Senator Ted Cruz of Texas is considering a draft bill that threatens sanctions against the European and Iranian finance vehicles.

Skeptics point out that Iran's Islamic Revolutionary Guard Corps, covered by existing sanctions, has used humanitarian front companies in the past.

The risk of crushing Instex now is that the U.S. could face an even greater backlash if it closes off an avenue for legitimate humanitarian trade, according to Suzanne Maloney, deputy director of the foreign policy program at the Brookings Institution.

“It does call into question what the long-term strategy here is,” Maloney said. “If there’s no room for humanitarian aid for Iran, literally no viable mechanisms for facilitating those transactions, then clearly this is purely a punitive strategy and one that is intended to wreak maximum havoc on the Iranian population.”