



Sanctions Are Finally Hitting Iran Hard: Part II

Gary Clyde Hufbauer explains how the US Treasury has used the power of the dollar to tighten economic pressure on Iran—and how cyber warfare against the financial system might come next.

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- Steve Weisman: This is Steve Weisman with Gary Clyde Hufbauer at the Peterson Institute for International Economics talking about the way that Iranian sanctions have been biting dramatically for the first time in recent weeks and months. Gary, one reason the sanctions are working is something you alluded to in the first part. These sanctions are going through the financial system. Explain how the U.S. has used its clout in the banking and financial global system here.
- Gary Hufbauer: Yes. This is very interesting and this is really quite novel. The U.S. has basically said to foreign banks, “You have a choice. You can do business with Iran or you can do business with the United States.” And many foreign banks, even those that don’t have any branches or operations in the U.S. say, “Hey, doing business with the United States is far more important.”
- Steve Weisman: And it’s not just doing business with the United States. Almost any transaction in the world requires dollars.
- Gary Hufbauer: Absolutely. So banks have to make a decision. They know that if they continue to do business with Iran -- that is, handle payments bank and forth -- they’re going to get on a blacklist run by the U.S. Treasury. It’s going to be very difficult to get off of that. That’s going to be a long-term inconvenience in terms of their doing business even between third countries, let’s say Korea and Chile. Often times, that runs through the Fedwire or the SWIFT [international payments] system or something like that.
- So, this has been affecting further the ability of the Treasury and the CIA to identify banks which might be trying to evade this transaction by dealing with cover companies and so forth. It’s very much greater now than it was 10 years ago. So it’s pretty hard to hide, particularly if you’re dealing with sums of money -- let’s say, \$10 million and above.
- Steve Weisman: In the past, the sanctions have been effective in bringing in European financial institutions, but they were being evaded by banks in parts of the Gulf and also in East Asia and Southeast Asia. What’s happened?
- Gary Hufbauer: Well, they are still being evaded to some extent. But what is happening is that the evasion is going down to second-tier banks in remote parts of the world, banks that you probably wouldn’t want to put your life savings with, and banks which a country like Iran might feel a little bit uncertain about when you’re dealing with transactions of \$100 million or more. These tend to be small banks without much reputation. That’s where it’s happening. It’s being fractured into those banks, but it certainly is a huge inconvenience and risk for the authorities in Tehran.
- Steve Weisman: This is a case of the primacy of the dollar, isn’t it?

Gary Hufbauer: Absolutely. About 70 percent of world trade in one way or another is conducted in the dollar. You can try to move into the yen or maybe the Australian dollar or so forth, but you will find that it's very difficult to use those currencies directly in payments in many parts of the world. So then, you have to go back into the dollar and change Australian dollars to U.S. dollars in order to pay a supplier in Indonesia. That takes you back into the U.S. financial net.

Steve Weisman: Are there any grounds for concern that this could eventually cause countries around the world to seek other reserve currencies besides the dollar?

Gary Hufbauer: There's always that concern. So far, we can't find any numbers that indicate that the concern is being translated into a smaller share of transactions being done in dollars. But it's a possibility. I think more immediate than that is, the longer the sanctions run, the more the Iranians will figure out indirect subtle ways to deal with countries which are not friendly to the U.S. Venezuela has basically offered its banking system to facilitate Iran. I think Bolivia and a few other countries like that. But there'll be more and more of those and that's probably the immediate reaction.

Steve Weisman: How could sanctions be tightened further?

Gary Hufbauer: That's a good question. I think what could be done beyond what we've already done is to completely refuse to deal with the Central Bank of Iran. There's some refusal to deal with it when it's acting as a commercial bank, but refusal to deal as the central bank. If you wanted to go one step further than that, it gets you in the territory where the Pentagon probably does not want to go.

We have the technical capability to electronically isolate Iran -- that is, to interrupt all its communications, including financial communications with the world, cyber warfare. That's a big step, but maybe [Israeli Prime Minister Binyamin] Netanyahu was trying to urge the U.S. to use selective cyber warfare against some ...

Steve Weisman: There has been a little bit of that according to the news reports, right?

Gary Hufbauer: Yes.

Steve Weisman: Directed more at their nuclear facilities.

Gary Hufbauer: Nuclear, it's been very successful cyber warfare. But it's been very targeted.

Steve Weisman: But not at the financial system.

Gary Hufbauer: And that's what I would guess Netanyahu may be urging.

Steve Weisman: That's very interesting. Thank you, Gary.

Gary Hufbauer: Thank you.

