

How Iran Skirts Sanctions

By Avi Jorisch

With a financial mechanism reminiscent of the Oil For Food scam, it seems Iran is using a United Nations office headquartered in Tehran to skirt U.S. sanctions. Once again, a rogue regime appears to be abusing a U.N. body in obtaining access to hard currency. The White House and the Financial Action Task Force—set up by the G-7 to combat money laundering and terrorist financing—have so far failed to identify this threat.

The Asian Clearing Union was established in Iran in 1974 as a U.N. initiative to expand trade and forge closer banking relations among ACU members. The organization's primary goal is to "facilitate payments among member countries," which include the central banks of Iran, India, Bangladesh, Bhutan, Nepal, Pakistan, Sri Lanka, the Maldives and Burma.

Iran has used the organization to route over \$13 billion overseas in 2008 and over \$5.6 billion so far in 2009 to pay for many of its goods and services, according to the ACU's financial documentation. The danger is that the ACU is potentially being used as a classic money laundering instrument. Iran might be using the U.N. body as a third party to circumvent the U.S. sanctions program, which prohibits with limited exceptions, such as for certain foodstuffs, textiles and medicine, American-Iranian business deals. The sanctions program does not only target domestic companies, however. Unless specifically allowed under the sanctions act, U.S. financial institutions are supposed to freeze all Iranian dollar transactions—including those involving Iran's non-American business partners.

The ACU mechanism is deceptively simple and described in detail on the ACU Web site (www.asianclearingunion.org): An Iranian company or government office initiates a transaction for the purchase of a foreign product or service by remitting Iranian rials via a local Iranian bank. The money is then transferred to the Central Bank of Iran, which then sends the funds to any ACU member using "Asian Monetary Units," the

currency of the ACU. Each of these units is equal to either one U.S. dollar or euro, depending on the customer's preference. Once the Iranian money is in the ACU pot, it is difficult, if not impossible, for foreign banks to know whose money it is. Unlike the Iranian Central Bank, most other ACU members' central banks can transact freely with any U.S.-based correspondent bank.

Could a U.N. agency be helping Tehran to launder money?

Imagine the Iranian regime wants to buy machinery from an Indian company that insists on getting paid in dollars. A U.S. correspondent bank should theoretically be involved because the American government owns the greenback. Normally, the money would be sent from an Iranian bank via a U.S. correspondent bank to the company's account. But because this type of transaction is not specifically allowed under the sanctions regime, the U.S. correspondent bank would be obligated to freeze the money instead of sending it on to the company.

With the ACU system, though, Iran could send the money to its Central Bank, which then sends it to the ACU. There the funds are converted into the "Asian Monetary Units." Iran can then use the funds as a line of credit and effectively circumvent the sanctions regime. Or alternatively, the money could be transferred to the Indian Central bank, for example, which uses a U.S. correspondent account to send the dollars to the account of the company that sent the machinery to Iran. As a result of this complex mechanism, American banks would have no reason to suspect that Tehran is involved.

Until this year, the ACU's Asian Monetary Units were only transacted in dollars. This means that unless the underlying business deals were specifically allowed by the U.S. Iran Sanctions Program, the funds Iran sent through the ACU before 2009 circumvented the sanctions regime. Starting this year, the ACU allowed its members to also transact in euros. The ACU public records do not specifically track the transactions that take place in dollars and euros. It is probably safe to assume that at least some, if not a good deal of the transactions Iran has been carrying out since 2009 to pay its

foreign vendors, are denominated in dollars. Given the nature of international trade, it is unlikely that Iran has now shifted all of its ACU transactions to the euro. Through the ACU, Iran likely has a significant supply of dollars it can use to buy goods and services that would otherwise be prohibited by U.S. law.

India, in particular, might be helping Iran sidestep U.S. sanctions. In both 2008 and 2009, Iran was India's biggest creditor in the ACU. These two countries together transacted close to \$12 billion in 2008 using this mechanism. From January through September 2009, Iran once again carried out the bulk of its ACU transactions with India, with the amount totaling just under \$5 billion (and close to \$1 billion in September alone) in trade. Not a small amount of money, given the international sanctions regime against Iran.

The ACU's Web site does not articulate the potential role it is playing for the Islamic Republic of Iran. It is interesting to note, however, that the contact page of the ACU provides an email address that is directed to the Central Bank of Iran (acusecret@cbi.ir). My attempts to contact the ACU for comment revealed a very close relationship between the ACU and Iran's central bank but no answers to my questions. When I first called the number provided on the ACU Web site last month with the help of a translator, we were told that we had in fact reached the Central Bank of Iran. When calling back a few days later, I was directed to a different number where a member of the ACU Secretariat informed me that the only information available was on the ACU Web site. For further information I was directed back to the Central Bank of Iran.

What can the international community do to stop these types of transactions from taking place? The U.S. Treasury Department has quietly warned foreign banks and companies that do business with Iran that they could lose access to U.S. markets if they deal with entities connected to terrorism or the Islamic Republic's nuclear industry. The U.S. government may want to make clear to both India and the ACU that helping Iran

circumvent sanctions has consequences. The ACU should be asked to make public a detailed list of the exact transactions Iran has been conducting through the organization. If the ACU can not demonstrate that all transactions have complied with the U.S. government's Iran economic sanctions program, the U.S. could consider using a special provision of the Patriot Act—Section 311—to designate the ACU a "Primary Money-Laundering Concern." At a minimum, a U.S. Treasury advisory to financial institutions informing them of the services the ACU is providing to Iran is more than warranted. It's also time for the U.S. State Department to complain to the U.N. that it is likely facilitating Iranian banking transactions. Previously, the U.N. itself has raised alarm bells on Iran and its banking sector, issuing three rounds of sanctions and calling on member states to "exercise vigilance in . . . banking with Iran."

While the U.N. remains largely invertebrate on targeted financial measures, one international organization that can play a helpful role is the Financial Action Task Force. The FATF's official policy is to blacklist countries that pose a significant risk to the international financial system. In 2007, Iran was placed on that blacklist and the FATF instructed its members to carry out enhanced due diligence on transactions taking place with Iran.

For several years, India has been aiming to get membership in the FATF. In its next meeting, the FATF may want to impress on India that the road to membership rests, in part, on its ability to ensure that no Indian financial entity is facilitating Iran's efforts to avoid U.S. sanctions.

The U.S. government and FATF have made clear that there is a cost for doing business with Iran. India and the ACU should be made to understand the same goes for them.

Mr. Jorisch, a former U.S. Treasury official, is a senior fellow at the Foundation for Defense of Democracies and the author of "Tainted Money: Are We Losing the War on Money Laundering and Terrorism Finance?" (Red Cell Publishing, 2009).



Mahmoud Ahmadinejad

Reaching Out to Burma

By Bertil Lintner

U.S. diplomats Kurt Campbell and Scot Marciel are visiting Burma this week to test the Obama administration's new policy of engagement with authoritarian regimes. Secretary of State Hillary Clinton has asserted this policy will "help achieve democratic reform." But this approach has been tried before—and it didn't work.



Westerners who believe they can "engage" the generals to make them change their ways are naïve. Burma's ruling generals don't receive

Western visitors because they are interested in learning anything from them. They talk to outsiders because they think they can use them to get critics off their backs and remain in power. Foreigners, whether they advocate "engagement" or sanctions, have always overestimated their own importance. Burma's generals listen only to themselves and any change would have to come from within the armed forces—the country's most powerful institution—and not from sweet-talking diplomats.

It is easy to forget that Sen. Jim Webb's visit to Burma in August, hailed by some for-

eign diplomats as a "breakthrough," was far from the first of its kind. In February 1994, Congressman Bill Richardson—now the governor of New Mexico—paid a highly publicized visit to Burma. Unlike Mr. Webb, he was allowed to bring an American correspondent with him, Philip Shanon of the New York Times. They met prodemocracy leader Aung San Suu Kyi—who also then was under house arrest—and intelligence chief Gen. Khin Nyunt. Ms. Suu Kyi, then as well as now, expressed her willingness to talk to the junta.

At the time, Mr. Richardson's visit was also described as a "breakthrough"—although he himself was very cautious in his remarks and just said that change may come if there were a dialogue between Ms. Suu Kyi and Gen. Khin Nyunt. That did not happen, and after a second visit to Burma in May 1995, Mr. Richardson stated at a press conference in Bangkok that his trip had been "unsuccessful, frustrating and disappointing. Here's my conclusion after my trip. There is serious repression, regression and retrenchment by the [junta] in the area of human rights and democratization."

The next "breakthrough" came when, in April 2000, Malaysian diplomat Razali Ismail was appointed as the United Nations' special envoy to Burma. He initiated talks between Ms. Suu Kyi and the generals, which began in October of that year. In May 2002, he scored an even more important success by securing Ms. Suu Kyi's release from house arrest. But a year later she was detained again. In January 2006, Mr. Razali

quit his post after being refused entry to the country for nearly two years. In an interview with the British Broadcasting Corporation, he admitted he had failed in his job "to help broker an agreement between the government and opposition that would lead the country towards democracy."

His successor, Nigerian diplomat Ibrahim Gambari, was equally unsuccessful.

After the junta had suppressed a September 2007 movement for change led by Buddhist monks, Mr. Gambari visited Burma and the U.N. said in a statement that, "We now have a process going which would lead to substantive dialogue." Mr. Gambari himself said that national reconciliation had begun as the government had appointed a "Minister for Liaison," Maj. Gen. Aung Kyi, to "smooth relations" with Ms. Suu Kyi.

Two years later, we are back at square one. The junta insists that it has to follow its "seven-step road map to democracy" and that "free and fair elections" will be held next year. But few inside the country seem to believe that these "elections" will lead to anything more than ensuring the military's grip on the country. Many ordinary Burmese are saying it is just another government-orchestrated event in which they are required to participate, not unlike the last year's "referendum" in which a new constitution was approved by a Stalinesque 92% of the electorate. That is the path the junta wants to follow, and they are not going to negotiate their own demise with some foreign emissaries.

'Engagement' has been tried before—and it didn't work.

Nor is it likely that Western pressure—or engagement—is going to improve the human-rights situation inside the country. Just days before the U.S. envoys arrived Tuesday the military raided the homes of journalists and activists, detaining about 50 people in a crackdown on overseas private donations for victims of the devastating May 2008 cyclone Nargis. And just by coincidence as the American visitors arrived, the military put on a drug-burning show in the country's remote northeastern region. The drugs were said to have been seized from a local army, which, until it ceased being an ally and broke with the government in August this year, had been praised by the authorities for its "drug-suppression efforts."

The show goes on. The military has a clear vision of what kind of state Burma should be—and that is not a democracy. It is sometimes argued that the hopes for a more pluralistic society rest on the next generation army officers. Aware of this danger, officers have been given unprecedented privileges and business opportunities in order to retain their loyalty to the regime. There are no Young Turks lurking in the wings.

Still, Burma's only hope for the future is that some officers, young or old, will change their minds. Until that happens, nothing is likely to change. And emissaries sent by the U.S. or any other Western power are likely to end up being as frustrated as Mr. Richardson was 14 years ago.

Mr. Lintner is a Swedish journalist based in Thailand and author of several books on Burma.