

In Iran, Private Sector Feels Squeeze of Sanctions

By **BENOIT FAUCON**

TEHRAN—As the U.S. imposes fresh sanctions on Iran, businessmen in Tehran say existing restrictions targeting the country's disputed nuclear program and its ruling regime are landing severe blows on businesses that aren't directly connected with either.

Despite U.S. and European Union assurances that sanctions have been designed to avoid harming Iran's civilian population, one Western official acknowledged that collateral damage on business is a predictable consequence of such tough sanctions, but ultimate blame for this lies with the Iranian government.

The impact on Iranian businesses underscores the challenge of using broad economic sanctions to target specific elements of a large and diverse economy like that of Iran.

"Western countries have always claimed that they don't want to make trouble for the Iranian people," said a member of the Energy Commission at Tehran's Chamber of Commerce, who didn't wish to be named. "But the fact is the private sector...is severely suffering," said the man, whose company isn't targeted by sanctions.

In recent months, the West has ratcheted up economic pressure on Iran's government over its nuclear program. Authorities in the U.S. and the EU say the program has military aims, an assertion that Tehran denies.

In order to increase the pressure on Iran's rulers, the U.S. and the EU have banned transactions with most Iranian banks, including its central bank.

These financial sanctions are "designed to expose financial institutions that are either directly supporting the Iranian nuclear program or providing services to those who are supporting the program," said David Cohen, undersecretary for terrorism and financial intelligence at the U.S. Treasury Department.

Sanctions continue to get tighter. On Wednesday, U.S. lawmakers passed new legislation that could further hit Iran's private sector. It expands sanctions to firms in joint ventures in mining or petroleum with Iran and imposes penalties for offering insurance to the closely held National Iranian Tanker Co.

On Tuesday, Washington targeted sanctions against a pair of Chinese and Iraqi banks accused of doing business with Iran.

Existing restrictions are already making it difficult for Iranian entrepreneurs to buy or sell goods, even those not covered by sanctions, because they can no longer use normal payment channels.

Nigel Kushner, a London-based sanctions lawyer at W Legal, said that even legal business activities become extremely difficult in such a tight web of restrictions.

"It's like you are allowed to swim, but only with your legs tied together," he said.

One contractor in the conventional electricity sector says he had to lay off more than a thousand staff members over the past three years, accelerating the redundancies in recent months because of tougher strictures.

Following the imposition of the latest sanctions on Iranian banks, he said he has been unable to buy vital equipment from European suppliers or receive payments from foreign clients, and was consequently unable to pay his own subcontractors. This happened because banks in Iran, Iraq and elsewhere refused to offer basic services such as letters guaranteeing credit or even cash transfers, he said.

An Iranian railway operator said his trains have been idled and he has had to lay off 150 staff since a French manufacturer refused to deliver spare parts early this year.

Parts from the French company weren't directly targeted by sanctions, but it feared the scrutiny associated with any Iran dealings, the Iranian railway operator said. On top of this, no bank would agree to channel the payments for equipment, he added.

"The failure of this private rail business is a big blow to privatization in the rail sector [but it is] strengthening the government sector," he said.

The electricity-sector contractor and the head of the railway operator asked not to be named because of the political sensitivity of discussing sanctions.

European and U.S. officials say the sanctions are meant to have as little an impact as possible on the civilian population.

"Sanctions do not cover the importation of food, medicine or medical devices," said Mr. Cohen in an interview. "This has been a long-standing policy of the United States."

"Our sanctions are targeted with relevant exemptions to minimize, as much as possible, unintended effects on the population," said a spokesman for EU Foreign Affairs Commissioner Catherine Ashton.

Yet, even with the exceptions in place, Mr. Cohen acknowledged that regular Iranian businesses will suffer some effects of the tight trade restrictions.

"I don't doubt there are businessmen in Iran who are facing difficulty in importing goods because of the constricted financial channels in Iran," he said. But, "that is an issue that the Iranian government has brought on its own people."

"There are always a lot of innocent bystanders that tend to be hurt by broad-scope sanctions," said Bryan Early, an assistant professor at the State University of New York at Albany. "Sanctions can weaken that portion [privately-owned businesses] of the population when they start to be comprehensively enforced throughout the world," said Mr. Early, who specializes in international sanctions.

The member of the Tehran Chamber of Commerce's Energy Commission questioned whether the echelons of the Iranian government that control nuclear policy are feeling the pressure. "The public sector has not been severely hurt," he said. "The Iranian people without any political influence and power are most vulnerable to these sanctions."

But Mr. Cohen said the sanctions have hit their intended targets. "There is no question that sanctions have had an impact on Iran's nuclear program," he said.

Write to Benoit Faucon at benoit.faucon@dowjones.com

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