

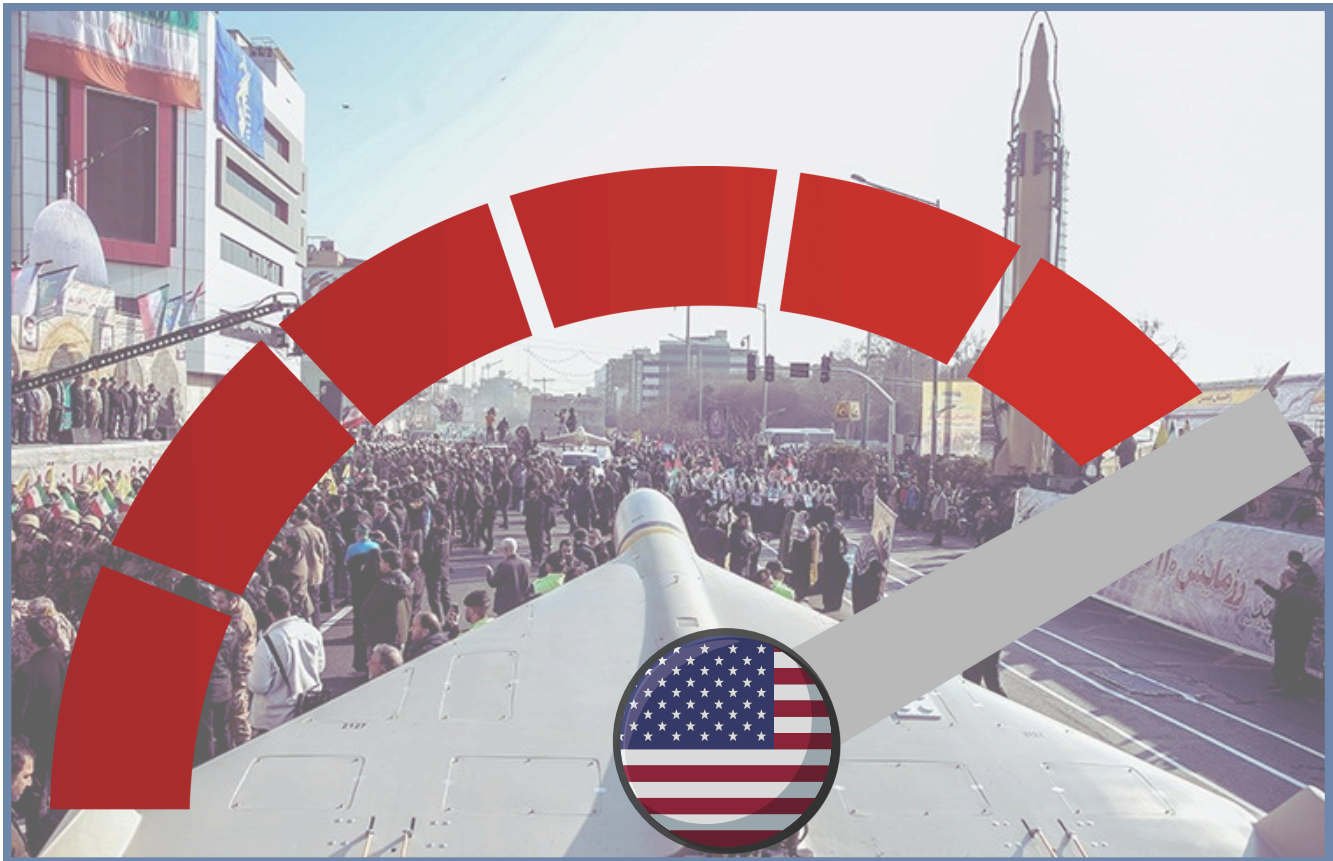


WISCONSIN PROJECT
ON NUCLEAR ARMS CONTROL



Maximum Pressure on Iranian Arms Production

How aggressive export controls can support U.S. policy objectives on Iran



John Caves
Valerie Lincy

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Executive Summary

A recently released White House national security memorandum (NSPM-2) seeks to impose maximum pressure on Iran in order to deny it a nuclear weapon and intercontinental ballistic missiles, neutralize Iran's network and campaign of regional aggression, disrupt and degrade the Islamic Revolutionary Guard Corps (IRGC) and its surrogates, and counter Iran's development of missiles and other asymmetric and conventional weapons capabilities.

Due to developments in the Middle East over the past year, Iran and its "Axis of Resistance" partners are now vulnerable to a U.S.-led pressure campaign. A well-coordinated and aggressively-implemented export control policy, initiated this year, could impede Iran's ability to acquire the foreign components it relies on to build missiles and drones. That in turn would prolong the time it takes Iran and its partners to rearm, weaken Iranian military deterrence, and strengthen the United States' hand in possible diplomacy aimed at denying Iran a nuclear weapon. A successful export control enforcement campaign could be modeled on the effort to deny common dual-use items to Russia, must address the role of China as a pipeline of illicit goods, should involve financial institutions worldwide and be coordinated with traditional U.S. allies in Europe and Asia, and ought to involve the snapback of United Nations sanctions on Iran.

Introduction

Two weeks after assuming office, President Donald Trump announced the resumption of the maximum pressure policy against Iran that his first administration pursued from 2018 to 2021. In 2025, Iran is [much closer](#) to producing a nuclear weapon.¹ Yet in the crucial areas of missile and conventional weapon proliferation, as well as support to regional proxies, Iran is now vulnerable to renewed pressure.

Iran's proxies were weakened and their stocks of weapons depleted in 2024. Hezbollah relied on its arsenal of missiles and rockets to attack Israel, and the group's arms storage and production locations were targeted during Israel's campaign against it. The fall of the Assad regime in Syria subsequently [cut off Tehran's supply route](#) to Hezbollah, complicating the group's efforts to rearm.² The Houthis' [17-month campaign](#) against Israel and commercial shipping in the Red Sea has involved near-daily use of drones and missiles.³ Iran's own arsenal has been reduced to some extent due to expenditures in its two large-scale [missile attacks](#) against Israel.⁴ Moreover, precisely when Iran needs to replenish its stocks, Israeli strikes in October reportedly [damaged its capacity](#) to produce rocket propellant.⁵ All this presents an opportunity to defang Tehran, if Mr. Trump chooses to effectively use the instruments available to him.

¹ Valerie Lincy and Gary Milhollin, "Iran's Nuclear Timetable: The Weapon Potential," Iran Watch, December 18, 2024, available at <https://www.iranwatch.org/our-publications/articles-reports/irans-nuclear-timetable-weapon-potential>, accessed on February 26, 2025.

² "Hezbollah chief says group lost its supply route through Syria," Reuters, December 14, 2024, available at <https://www.reuters.com/world/middle-east/hezbollah-chief-says-group-lost-its-supply-route-through-syria-2024-12-14/>, accessed on February 26, 2025.

³ For an example of the types of Iran-supplied weapons used by the Houthis, see: John Krzyzaniak, "U.S. Interdictions Highlight Iran's Continuing Arms Transfers to Yemen," Iran Watch, February 22, 2024, available at <https://www.iranwatch.org/our-publications/international-enforcement-actions/us-interdictions-highlight-irans-continuing-arms-transfers-yemen>, accessed on February 26, 2025.

⁴ For analyses of these attacks, see: John Krzyzaniak, "Iran's Missile Attack Against Israel," Iran Watch, April 15, 2024, available at <https://www.iranwatch.org/our-publications/articles-reports/irans-missile-attack-against-israel>, accessed on February 26, 2025; John Krzyzaniak, "Iran's Second Missile Attack on Israel," Iran Watch, October 3, 2024, available at <https://www.iranwatch.org/our-publications/articles-reports/irans-second-missile-attack-israel>, accessed on February 26, 2025.

⁵ Barak Ravid, "Israel strike crippled Iran's missile production, sources say," Axios, October 26, 2024, available at <https://www.axios.com/2024/10/26/israel-strike-iran-missile-production>, accessed on February 26, 2025.

The White House released a [national security memorandum](#) (NSPM-2) on February 4 that states the broad nature of the Iranian threat to the U.S. national interest and the urgency of enacting maximum pressure to counter that threat.⁶ It articulates four policy objectives:

1. Deny Iran a nuclear weapon and intercontinental ballistic missiles.
2. Neutralize Iran's network and campaign of regional aggression.
3. Disrupt and degrade the Islamic Revolutionary Guard Corps (IRGC) and its surrogates, or deny them access to the resources that sustain their destabilizing activities.
4. Counter Iran's aggressive development of missiles and other asymmetric and conventional weapons capabilities.

A well-coordinated and aggressively-implemented export control policy, initiated this year, could help achieve the fourth objective by impeding Iran's ability to acquire the foreign components it relies on to build missiles and drones. In so doing, export controls can also contribute substantially to achieving the second and third objectives by prolonging the time it takes Iran and its "Axis of Resistance" partners and proxies to rearm. This in turn weakens Iranian military deterrence and strengthens the United States' hand in whatever negotiations it might choose to pursue in regard to the first objective of denying Iran a nuclear weapon.

To be successful, a push to constrain Iran's missile and arms proliferation would encompass four lines of effort: clamping down on China's role as a pipeline of dual-use goods to Iran; co-opting banks to detect and stop transfers of military-usable items; coordinating export control lists and enforcement with allies; and triggering the snapback of United Nations sanctions on Iran.

All Roads Lead Through China

NSPM-2 directs the Commerce Department to "conduct a robust and continuous export control enforcement campaign to restrict the flow of technology and components used by the [Iranian] regime for military purposes." Successfully implementing this directive requires tackling the challenge of smuggling through transshipment hubs: high trade volume jurisdictions where companies import items from the United States relatively easily, but then ship them onward to other countries, including to sanctioned destinations such as Iran. Hubs in the Middle East and Southeast Asia have long been a problem for export control enforcement, but none recently has been a bigger problem than China.

⁶ "National Security Presidential Memorandum/NSPM-2," The White House, February 4, 2025, available at <https://www.whitehouse.gov/presidential-actions/2025/02/national-security-presidential-memorandum-nspm-2/>, accessed on February 12, 2025.

The new administration has so far focused on China as a buyer of Iranian oil and has used targeted sanctions against vessels, ship management companies, and refineries involved in the Iran-China oil trade.⁷ This approach may prove effective in suppressing Iranian oil sales, which rely on a limited number of tankers to transport the product to market.

However, a reliance on targeted designations is more challenging when dealing with the dual-use items used in weapons, many of which are physically small and tend to be traded frequently and in high volumes, often via distributors. Once a shipment of ball bearings or transistors enters the vast Chinese market, for example, it is very difficult to prevent them from ending up in the wrong hands.

The high proportion of China- and Hong Kong-based companies among entities sanctioned by the United States for support to Iran's weapons programs also shows China to be a prominent link in the illicit supply chain of those items, not just a consumer of oil. For example, six of the 14 non-Iranian entities that were added to the Commerce Department's Entity List in 2024 for supplying Iran were located in China or Hong Kong, compared to five in the United Arab Emirates (UAE) and three in Russia.⁸ A similar ratio holds over a longer time horizon and with regard to other sanctions lists.⁹ China's role as a conduit of dual-use goods to Iran is analogous to the role it

⁷ "Treasury Targets Oil Network Generating Hundreds of Millions of Dollars for Iran's Military," U.S. Department of the Treasury, February 6, 2025, available at <https://home.treasury.gov/news/press-releases/sb0015>, accessed on February 26, 2025; "Treasury Imposes Additional Sanctions on Iran's Shadow Fleet as Part of Maximum Pressure Campaign," U.S. Department of the Treasury, February 24, 2025, available at <https://home.treasury.gov/news/press-releases/sb0026>, accessed on February 26, 2025.

⁸ Two of the 11 Iranian entities added in the same time period also maintained Chinese addresses. See: "Additions of Entities to the Entity List," U.S. Department of Commerce, Bureau of Industry and Security, published in the Federal Register Vol. 89 No. 39, February 27, 2024, pp. 14385-14403, available at <https://www.govinfo.gov/content/pkg/FR-2024-02-27/pdf/2024-03969.pdf>, accessed on February 26, 2025; "Addition of Entities to and Revision of Entry on the Entity List," U.S. Department of Commerce, Bureau of Industry and Security, published in the Federal Register Vol. 89 No. 71, April 11, 2024, pp. 25503-25507, available at <https://www.govinfo.gov/content/pkg/FR-2024-04-11/pdf/2024-07760.pdf>, accessed on February 26, 2025; "Revisions to the Entity List," U.S. Department of Commerce, Bureau of Industry and Security, published in the Federal Register Vol. 89 No. 166, August 27, 2024, pp. 68544-68570, available at <https://www.bis.doc.gov/index.php/documents/federal-register-notice-1/3518-89-fr-68544-0694-aj79/file>, accessed on February 26, 2025; "Addition of Entities, Revision of an Entry, and Removal of Entries on the Entity List," U.S. Department of Commerce, Bureau of Industry and Security, published in the Federal Register Vol. 89 No. 205, October 23, 2024, pp. 84460-84465, available at <https://www.govinfo.gov/content/pkg/FR-2024-10-23/pdf/2024-24562.pdf>, accessed on February 26, 2025.

⁹ Entities connected to China and/or Hong Kong make up approximately half of all non-Iranian entities added to the U.S. Treasury Department's Specially Designated Nationals and Blocked Persons (SDN) List pursuant to Executive Order 13382 through mid-October 2024 (84 China/Hong Kong entities out of a total of 164 non-Iranian entities). E.O. 13382 is an authority that targets proliferators of weapons of mass destruction and their delivery systems, and is frequently used to sanction entities in connection with Iran's missile and drone programs. Nearly a *(footnote continued)*

performs for Russia, which sees between half and three-quarters of its weapon-related imports arrive via China and Hong Kong.¹⁰

More comprehensive restrictions on trade in dual-use items to China are necessary to significantly reduce the amount of those goods that reach Iran. One tool available to the administration is the designation of a country as a Destination of Diversion Concern. The concept was included in the 2010 Comprehensive Iran Sanctions, Accountability, and Divestment Act (CISADA) specifically to counter diversion of dual-use goods to Iran. Under CISADA, the President may designate countries that allow substantial diversion of goods that could contribute to Iran's nuclear, ballistic missile, or advanced conventional weapons capabilities or support for terrorism. Exports of selected goods of that type to a designated country would require a license from the Commerce Department, with a presumption of denial.¹¹

Aspects of the current framework for establishing Destinations of Diversion Concern are inadequate or impractical, however. On one hand, only items on the Commerce Control List (CCL) or the U.S. Munitions List could have licensing requirements imposed, and those lists do not encompass all of the items that Iran has used to manufacture missiles and drones. In fact, the Commerce Department maintains a separate list of goods that could be used in Iranian drones

third of non-Iranian entities added to the Commerce Department's Entity List in connection with Iran prior to mid-October 2024 are also connected to China and/or Hong Kong (107 China/Hong Kong entities out of a total of 387 non-Iranian entities). Source: Data File, Iran Sanctions IMPACT, last updated October 18, 2024, available at <https://sanctionsimpact.wisconsinproject.org/data-file/>, accessed on February 14, 2025. Data file methodology available upon request.

¹⁰ According to the Kyiv School of Economics, nearly 76% of battlefield goods obtained by Russia in the first ten months of 2023 had their final point of shipment in China or Hong Kong. In September 2024, a Ukrainian presidential adviser said that about 60% of foreign parts found in Russian weapons in Ukraine had arrived via China. Wisconsin Project analysis of the import records of Russian companies involved in acquiring export-controlled dual-use items have been consistent with these estimates. No such import records are publicly available for Iran, but Chinese companies sanctioned for supplying Iran have had similar characteristics to those supplying Russia, namely that they are goods distributors, trading companies, or freight forwarders with locations in both the mainland and Hong Kong. Iran's proportion of Chinese-routed goods may be smaller than Russia's given that, unlike Russia, Iran does not share a border with China, but it is still considerable. See: Olena Bilousova, Benjamin Hilgenstock, Elina Ribakova, Nataliia Shapoval, Anna Vlasyuk, and Vladyslav Vlasiuk, "Challenges of Export Controls Enforcement: How Russia Continues to Import Components for Its Military Production," Yermak-McFaul International Working Group on Russian Sanctions and KSE Institute, January 2024, pp. 8, 14, available at <https://kse.ua/wp-content/uploads/2024/01/Challenges-of-Export-Controls-Enforcement.pdf>, accessed on February 12, 2025; Julia Payne, "Ukraine says China is key route for foreign tech in Russian weapons," Reuters, September 24, 2024, available at <https://www.reuters.com/world/europe/ukraine-says-china-is-key-route-foreign-tech-russian-weapons-2024-09-24/>, accessed on February 12, 2025.

¹¹ "22 USC Chapter 92, Subchapter III: Prevention of Diversion of Certain Goods, Services, and Technologies to Iran," United States Code, available at <https://uscode.house.gov/view.xhtml?req=granuleid%3AUSC-prelim-title22-chapter92-subchapter3&saved=%7CZ3JhbnVsZWl0IUVQy1wcmVsYW0tdGI0bGUyMi1zZWNOaW9uODU0Mw%3D%3D%7C%7C%7C0%7Cfalse%7Cprelim&edition=prelim>, accessed on February 14, 2025.

(the Iran FDP Rule List).¹² This list covers several categories of goods, many of which fall below the control thresholds specified by the CCL.¹³ The Common High-Priority List (CHPL), which is used by the United States and its allies to control commonly-traded items that Russia seeks for military uses, has a similar focus on below-threshold items. Moreso than the CCL, those lists reflect the reality that countries such as Iran seek common items for military end use.

On the other hand, the current authority for Destinations of Diversion Concern mandates a presumption of denial for all exports of specified goods going to the designated country—a sweeping restriction. Much of the U.S.-China trade in dual-use items is for legitimate civilian purposes, and applying such a restriction to a major trading partner like China would be both impractical and economically damaging for the United States. It would make no distinction between possible recipients of an item, meaning that foreign importers who have a longstanding, clean trade record with U.S. business partners would face the same barrier as dubious one-person companies that were established at a shared address last month.

Instead, Congress and the administration should consider revising the concept of Destinations of Diversion Concern to make it both more comprehensive in its restrictions on goods and more targeted in its restrictions on entities, while requiring corresponding due diligence from U.S. and foreign suppliers exporting goods subject to the Commerce Department’s Export Administration Regulations (EAR).

A major problem for export control enforcement, not only in China but also in other transshipment hubs such as Turkey, Malaysia, and the UAE, has been the churn of front companies and small trading entities, often sole proprietorships that dissolve once sanctioned

¹² These items, primarily consisting of aircraft engines, machine tools, microelectronics, navigation systems, and optics, are restricted as Foreign Direct Products, meaning that foreign manufacturers who use U.S. technology to produce the listed items must get a U.S. license before exporting them if their ultimate destination is Iran. See: “15 CFR 734.9: Foreign-Direct Product Rules,” Electronic Code of Federal Regulations, updated through February 10, 2025, Para. (j), available at <https://www.ecfr.gov/current/title-15/subtitle-B/chapter-VII/subchapter-C/part-734/section-734.9>, accessed on February 12, 2025; “Supplement No. 7 to Part 746, Title 15,” Electronic Code of Federal Regulations, updated through February 10, 2025, available at <https://www.ecfr.gov/current/title-15/subtitle-B/chapter-VII/subchapter-C/part-746/appendix-Supplement%20No.%207%20to%20Part%20746>, accessed on February 12, 2025.

¹³ For example, the CCL controls Monolithic Microwave Integrated Circuit (MMIC) amplifiers that meet certain specifications for power output and frequency. The Iran FDP Rule List, by contrast, controls all goods under HTS Code 8542.33, which includes a wide range of amplifiers. See: “Supplement No. 1 to Part 774, Title 15,” Electronic Code of Federal Regulations, updated through February 19, 2025, ECCN 3A001b.2., available at <https://www.ecfr.gov/current/title-15/subtitle-B/chapter-VII/subchapter-C/part-774/appendix-Supplement%20No.%201%20to%20Part%20774>, accessed on February 21, 2025; “Supplement No. 7 to Part 746, Title 15,” Electronic Code of Federal Regulations, updated through February 10, 2025, available at <https://www.ecfr.gov/current/title-15/subtitle-B/chapter-VII/subchapter-C/part-746/appendix-Supplement%20No.%207%20to%20Part%20746>, accessed on February 12, 2025.

and then are re-established under a new name. By contrast, larger, more established companies in those jurisdictions are often reluctant to risk U.S. sanctions. As one Chinese industry source was quoted by Reuters in June 2024, "No-one in China is ready to fall under secondary sanctions and lose the global market just because of Russia. Neither manufacturing companies nor financial structures, including banks."¹⁴ The same is likely even more true for Iran.

A re-envisioned Destination of Diversion Concern designation could aim to maintain valuable economic relationships while reducing risk by channeling trade to companies that have more to lose from sanctioning. It could do so by establishing more stringent licensing requirements for exports to companies that have certain characteristics associated with "red flags" for illicit trade described in U.S. government guidance to industry. Such characteristics could include having been recently registered in the designated country (perhaps within a two-year period previous to the license application), using an address that is shared by multiple companies, or being a sole proprietorship.¹⁵ Licensing requirements for exports to longer-established and more transparent companies within the designated country would be less stringent, on the grounds that such companies are more likely to be deterred from diverting controlled goods to Iran by the threat of sanctions.

Such a revision—paired with an expansion of the goods that the Commerce Department could apply a licensing requirement to under the designation, to include items covered by the Iran FDP Rule List—would provide a means to obstruct the Chinese pipeline to Iran's weapons programs while limiting the economic fallout that would result from a broader trade prohibition. The administration could apply the revised designation to China and Hong Kong, or, as an immediate step, it could designate Hong Kong as a Destination of Diversion Concern under the existing statutory authority while exercising the discretion that the law gives the President to delay the imposition of the licensing requirement for 12-month periods. Doing so would signal seriousness of intent and serve as a warning shot to Beijing and other prominent transshipment hubs.

¹⁴ "Russia, China find payments workaround as US sanctions net widens, sources say," Reuters.

¹⁵ Associated red flags include: "The customer has little or no business background;" "Use of corporate vehicles to obscure ownership, source of funds, or countries/entities involved;" and "Operation of businesses using residential addresses or addresses found to be common to multiple corporate entities." See: "Supplement No. 3 to Part 732, Title 15," Electronic Code of Federal Regulations, updated through February 24, 2025, available at <https://www.ecfr.gov/current/title-15/subtitle-B/chapter-VII/subchapter-C/part-732/appendix-Supplement%20No.%203%20to%20Part%20732>, accessed on February 26, 2025; "Guidance to Industry on Iran's UAV-Related Activities," U.S. Departments of the Treasury, Commerce, Justice, and State, June 9, 2023, pp. 8-9, available at <https://ofac.treasury.gov/media/931876/download?inline>, accessed on February 26, 2025.

Involving Financial Institutions in Export Control

NSPM-2 also focuses on the role of financial institutions in preventing Iranian sanctions evasion, directing the Treasury Department to “evaluate whether financial institutions should adopt a ‘Know Your Customer’s Customer’ standard for Iran-related transactions.” This policy should involve banks in goods-based export controls—an innovation from the effort against Russia. Doing so would place banks on the hook for transactions that result in Iran obtaining items it could use to make drones or missiles, even if the companies involved in the transaction are not sanctioned. It would bring banks in line with what is already expected of manufacturers and exporters of goods subject to the EAR.

The Treasury Department provided guidance to banks on specific items of concern in the Russia case. A December 2023 executive order identified 29 categories of items prohibited for transfer to Russia and authorized sanctions on any foreign financial institution that facilitated the “sale, supply, or transfer” of those items, whether directly or through an intermediary.¹⁶ The list of items closely mirrors the Iran FDP Rule List and the Common High Priority List. Were a foreign bank to, for example, process a front company’s payment for a machine tool that the company subsequently shipped to Russia, that bank could be barred from the U.S. financial system, including the use of the U.S. dollar—a potentially catastrophic outcome for its business.

The approach was effective, particularly in its first few months: the value of Turkish exports of high-priority goods destined for Russia reportedly dropped by 40% in the first quarter of 2024, transshipments of those items through Hong Kong reportedly dropped 28% in a similar timeframe, and China and Russia were reportedly forced to devise less-efficient payment workarounds and barter arrangements for their trade.¹⁷ While the measure was aimed at foreign

¹⁶ “Executive Order 14114 of December 22, 2023: Taking Additional Steps With Respect to the Russian Federation’s Harmful Activities,” The White House, published in the Federal Register Vol. 88 No. 246, December 26, 2023, pp. 89271-89274, available at <https://www.govinfo.gov/content/pkg/FR-2023-12-26/pdf/2023-28662.pdf>, accessed on February 12, 2025; “Determination Pursuant to Section 11(a)(ii) of Executive Order 14024,” U.S. Department of the Treasury, Office of Foreign Assets Control, December 22, 2023, available at <https://ofac.treasury.gov/media/932446/download?inline>, accessed on February 12, 2025.

¹⁷ Max Seddon, Chris Cook, and Anastasia Stognei, “Russian finance flows slump after US targets Vladimir Putin’s war machine,” Financial Times, May 5, 2024, available at <https://www.ft.com/content/b4a556b0-0402-4114-9428-869bd49cf23c>, accessed on February 12, 2025; James Pomfret and Michael Martina, “Exclusive: Illicit chip flows to Russia seen slowing, but China, Hong Kong remain transshipment hubs,” Reuters, July 22, 2024, available at <https://www.reuters.com/technology/illicit-chip-flows-russia-seen-slowing-china-hong-kong-remain-transshipment-hubs-2024-07-21/>, accessed on February 12, 2025; “Russia, China find payments workaround as US sanctions net widens, sources say,” Reuters, June 20, 2024, available at <https://www.reuters.com/world/russia-china-find-payments-workaround-us-sanctions-net-widens-sources-say-2024-06-20/>, accessed on February 12, 2025; “Exclusive: First Russia-China barter trade may come this autumn, sources say,” Reuters, August 8, 2024, available at <https://www.reuters.com/markets/first-russia-china-barter-trade-may-come-this-autumn-sources-say-2024-08-08/>, accessed on February 12, 2025.

financial institutions, it also served as a wake-up call for U.S. banks,¹⁸ which are prohibited by the Commerce Department from financing trade that violates the EAR.¹⁹

Some of the effect of a goods-based due diligence requirement inevitably wears off as sanctions evaders find their way around restrictions. However, the short term matters in the Iranian case, as Tehran attempts to rearm in order to ward off the possibility of a military strike against its nuclear facilities. Some effect also continues in the long term. Banks become accustomed to paying attention to the goods involved in the transactions they finance as part of their ongoing compliance and due diligence functions, which establishes a higher baseline for scrutiny that sanctions evaders then have to devote more time and resources into circumventing.

The administration could apply this practice to Iran and also improve it. The first step would likely be to issue a new executive order on Iran containing language similar to the amended Section 11 of the Russia-focused Executive Order 14024, as well as a list of controlled items mirroring or resembling the Iran FDP Rule List. It would likely be useful to identify the listed items with Harmonized Tariff System (HTS) codes, as in the Iran FDP Rule List, in addition to the text descriptions used in the list for the Russia-focused order.

The Treasury Department could also publish a “key term” for Iranian export control evasion and instruct financial institutions to file a suspicious activity report coded with that term in instances of suspected Iranian attempts to obtain controlled items. Doing so could aid interagency coordination on Iran, particularly between the Commerce and Treasury Departments, building on groundwork laid by the previous administration in regard to Russia.²⁰

¹⁸ One of the authors, Wisconsin Project Executive Director Valerie Lincy, participated as a panelist at a seminar for financial institutions on export controls and military, dual-use goods hosted by S&P Global in February 2024, shortly after the issuance of the abovementioned executive order. The necessity for financial institutions to adapt to commodity-based due diligence was a major item of discussion.

¹⁹ “15 CFR Part 736 – General Prohibitions,” Electronic Code of Federal Regulations, updated through February 19, 2025, available at <https://www.ecfr.gov/current/title-15/subtitle-B/chapter-VII/subchapter-C/part-736>, accessed on February 21, 2025.

²⁰ In 2022 and 2023, Treasury’s Financial Crimes Enforcement Network (FinCEN) and Commerce’s Bureau of Industry and Security (BIS) issued joint guidance for financial institutions to file a suspicious activity report with a specific key term for instances of possible Russian attempts to obtain high-priority items. There are some existing key terms related to Iran, but none specifically denoting Iranian export control evasion attempts. See: “Supplemental Alert: FinCEN and the U.S. Department of Commerce’s Bureau of Industry and Security Urge Continued Vigilance for Potential Russian Export Control Evasion Attempts,” U.S. Department of the Treasury, Financial Crimes Enforcement Network, May 19, 2023, available at [https://www.fincen.gov/sites/default/files/shared/FinCEN and BIS Joint Alert_FINAL_508C.pdf](https://www.fincen.gov/sites/default/files/shared/FinCEN%20and%20BIS%20Joint%20Alert%20_FINAL_508C.pdf), accessed on February 12, 2025; “Suspicious Activity Report (SAR) Advisory Key Terms,” U.S. Department of the Treasury, Financial Crimes Enforcement Network, last updated January 2025, available at <https://www.fincen.gov/resources/suspicious-activity-report-sar-advisory-key-terms>, accessed on February 26, 2025.

Coordinating Export Control Enforcement with Allies

NSPM-2 correctly identifies the need for robust enforcement of export controls, not merely the promulgation of new regulations. One of the lessons from the Russian case is that concerted action by countries aligned with the United States makes an enforcement campaign much more successful. There is currently an opportunity to achieve similar alignment and action with regard to Iran, which has squandered what goodwill it once had in Europe by arming Russia, violently repressing protests, and engaging in nuclear brinksmanship. The administration can seize that opportunity, but only if it can avoid squandering its own influence with U.S. allies.

The value of coordinated action with allies lies in the ability of those countries to stop the transit of dual-use goods from or through their territories. As with Russia, European countries and other technologically-advanced allies such as Japan and Taiwan are a source of components sought by Iran for weapons.²¹ Their governments can detect and prosecute illicit procurement within their borders or involving their nationals. In the past two years, for example, the Netherlands arrested a smuggler of microchips and drones and a former employee of a Dutch firm who passed chip designs to Russian state-owned companies;²² Germany arrested one individual for illegally exporting electronic drone parts and another for machine tools;²³ and Finland convicted an individual who had illicitly exported electronic warfare equipment.²⁴

²¹ According to the Kyiv School of Economics study, nearly 20% of battlefield goods imported by Russia from January-October 2023 were produced by companies headquartered in U.S.-aligned countries. European components including integrated circuits and fuel pumps have reportedly been found in Iranian-made drones recovered in Ukraine. See: Bilousova et. al., “Challenges of Export Controls Enforcement,” p. 11; Daniel Boffey, “Revealed: Europe’s role in the making of Russia killer drones,” The Guardian, September 27, 2023, available at <https://www.theguardian.com/world/2023/sep/27/revealed-europes-role-in-the-making-of-russia-killer-drones>, accessed on February 26, 2025.

²² “Dutch suspect evaded sanctions by exporting microchips to Russia through third countries,” NL Times, February 13, 2023, available at <https://nltimes.nl/2023/02/13/dutch-suspect-evaded-sanctions-exporting-microchips-russia-third-countries>, accessed on February 14, 2025; Toby Sterling, “Former Russian ASML employee charged with IP theft and sanctions violations,” Reuters, December 9, 2024, available at <https://www.reuters.com/technology/former-russian-asml-employee-set-court-hearing-alleged-ip-theft-case-2024-12-09/>, accessed on February 14, 2025.

²³ “Germany arrests a man accused of illegally exporting electronic components for drones to Russia,” Associated Press, August 29, 2023, available at <https://apnews.com/article/germany-russia-arrest-suspect-illegal-exports-drones-ukraine-707b1d075d104da65b2d40f9e97faca9>, accessed on February 14, 2025; “German former executive arrested for exports to Russian arms maker,” Reuters, August 24, 2023, available at <https://www.reuters.com/world/europe/german-former-executive-arrested-exports-russian-arms-maker-2023-08-24/>, accessed on February 14, 2025.

²⁴ Anne Kauranen, “Finnish court rules French businessman guilty of breaching Russia sanctions,” Reuters, March 7, 2024, available at <https://www.reuters.com/world/europe/finnish-court-rules-french-businessman-guilty-breaching-russia-sanctions-2024-03-07/>, accessed on February 14, 2025.

To achieve similarly vigorous action in regard to Iran, the first order of business would be to harmonize U.S. and allied export control lists, as was done to create the Common High Priority List for Russia. The existing Iran FDP Rule List provides a good starting point, as it is already applicable to the many foreign manufacturers who use U.S.-origin technology to produce their goods.²⁵ Separately, the European Union maintains a list of drone- and missile-usable items that individuals and companies in its member states are prohibited from exporting to Iran.²⁶ The two lists overlap substantially with each other, but remain distinct. To better coordinate export enforcement, they should converge.

Next, the United States should press the European Union and the United Kingdom to align with Washington in their targeted sanctions against entities supplying Iran's weapon programs. Brussels and London have [made some progress](#) on this front since 2023, but large gaps remain, particularly in the designation of third-country suppliers.²⁷

Then, the United States should work with its allies on the two initiatives described in the above sections: involving financial institutions in goods-based due diligence and establishing controls for destinations of diversion concern. There are existing bases on which to build both measures.

On the financial side, NSPM-2 directs the Treasury Department to support the maintenance of countermeasures against Iran at the Financial Action Task Force (FATF), an international anti-money laundering watchdog. Among the countermeasures that FATF recommends for Iran is a requirement that financial institutions perform "specific elements of enhanced due diligence," including by obtaining information on the purpose of individual transactions.²⁸ On that basis, it

²⁵ Foreign manufacturers who use U.S. technology to produce the listed items must get a U.S. license before exporting them if their ultimate destination is Iran. See 15 CFR 734.9: Foreign-Direct Product Rules.

²⁶ "Council Regulation (EU) 2023/1529 of 20 July 2023 concerning restrictive measures in view of Iran's military support to Russia's war of aggression against Ukraine and to armed groups and entities in the Middle East and the Red Sea region," Council of the European Union, July 20, 2023, as amended through October 14, 2024, pp. 4-5, 16-19, available at <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A02023R1529-20241014>, accessed on February 12, 2025; "Council Regulation (EU) 2024/2897 of 18 November 2024 amending Regulation (EU) 2023/1529 concerning restrictive measures in view of Iran's military support to Russia's war of aggression against Ukraine and to armed groups and entities in the Middle East and the Red Sea region," Council of the European Union, November 18, 2024, p. 2, available at <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32024R2897>, accessed on February 27, 2025.

²⁷ John Caves and Valerie Lincy, "A Necessary Transition to Sanctions Convergence: JCPOA Transition Day and the Retention of European Sanctions on Iran," Iran Watch, October 30, 2023, available at <https://www.iranwatch.org/our-publications/policy-briefs/necessary-transition-sanctions-convergence>, accessed on February 26, 2025.

²⁸ "High-Risk Jurisdictions subject to a Call for Action," Financial Action Task Force, February 21, 2025, available at <https://www.fatf-gafi.org/content/fatf-gafi/en/publications/High-risk-and-other-monitored-jurisdictions/Call-for-action-february-2025.html>, accessed on February 21, 2025; "The FATF Recommendations," Financial Action Task Force, updated November 2023, pp. 15, 73-74, 89, available at <https://www.fatf-gafi.org/en/publications/Fatfrecommendations/Fatf-recommendations.html>, accessed on February 12, 2025.

is reasonable to expect allies to follow suit in requiring their banks to screen transactions for suspicious transfers of controlled goods, in addition to screening for sanctioned parties. Banks in the European Union are prohibited from financing transfers of drone-related goods to Iran, but, like U.S. banks, they may not yet have fully-developed compliance procedures for carrying out the necessary goods-based due diligence.²⁹

In 2023, the European Union adopted its own authority for destinations of diversion concern, which allows it to prohibit the export of selected dual-use goods and technologies to countries that have persistently failed to prevent the diversion of those goods to Russia. Like the United States, the EU has not yet designated any countries as such destinations.³⁰ Consequently, Washington should coordinate with Brussels to extend the EU diversion framework to Iran and to make designating problem countries such as China less costly, as described above for the United States' own statute.

Triggering the Snapback of U.N. Sanctions

NSPM-2 directs the U.S. Permanent Representative to the United Nations to “work with key allies to complete the snapback of international sanctions and restrictions on Iran,” referring to the “snapback mechanism” contained in [U.N. Security Council resolution 2231](#).³¹ Applying the provision would result in the re-imposition of the U.N. sanctions on Iran that were in place prior to the 2015 nuclear agreement (the JCPOA).

The administration should push for the application of snapback, though it should keep two things in mind. First, it should coordinate with France, Germany, and the United Kingdom, which, unlike the United States, have standing to initiate the snapback process as current parties to the JCPOA. If the administration instead declares a revival of the United States' [unsuccessful 2020 attempt](#)

²⁹ “Council Regulation (EU) 2023/1529 of 20 July 2023,” Council of the European Union, pp. 4-5; Benjamin Hilgenstock, Elina Ribakova, Anna Vlasyuk, and Guntram Wolff, “Using the Financial System to Enforce Export Controls,” Bruegel, October 2024, pp. 8-16, available at https://www.bruegel.org/system/files/2024-05/WP%2010%202024_1.pdf, accessed on February 26, 2025.

³⁰ “Russia’s war of aggression against Ukraine: EU adopts 11th package of economic and individual sanctions,” Press Release, Council of the European Union, June 23, 2023, available at <https://www.consilium.europa.eu/en/press/press-releases/2023/06/23/russia-s-war-of-aggression-against-ukraine-eu-adopts-11th-package-of-economic-and-individual-sanctions/>, accessed on February 14, 2025; “Council Regulation (EU) No 833/2014 of 31 July 2014 concerning restrictive measures in view of Russia’s actions destabilising the situation in Ukraine,” Council of the European Union, July 31, 2014, as amended through December 16, 2024, pp. 101-102, 487, available at <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A02014R0833-20241217>, accessed on February 14, 2025.

³¹ “Resolution 2231 (2015),” U.N. Security Council, July 20, 2015, pp. 4-5, available at [https://docs.un.org/en/S/RES/2231\(2015\)](https://docs.un.org/en/S/RES/2231(2015)), accessed on February 24, 2025.

to unilaterally trigger snapback,³² the move is likely to be rejected by third countries and set back attempts to coordinate U.S. and European export control enforcement. Second, the snapback process should be initiated with sufficient time for the re-imposition of sanctions to take effect before Russia assumes the rotating presidency of the U.N. Security Council on October 1. Otherwise, Moscow may manage to delay the process until resolution 2231 expires on October 18, and with it the international legal authority for snapback.

The practical benefits of snapback are likely to be less than the restrictions that would be restored on paper, but they would still be valuable.³³ The most significant would be the reimposition of an arms embargo and restrictions on transfers of missile-related items to and from Iran. These restrictions would be accompanied by a call for U.N. member states to inspect cargo passing through their ports and airports and, crucially, authority in international law for the U.S. or allied navies to carry out inspections of vessels bound to or from Iran on the high seas. Such authorization from the United Nations could serve as the basis for a wide crackdown on Iranian smuggling of arms and missile parts. Although China and Russia can be expected to repudiate it, snapback may provide other, formally non-aligned countries with the political and legal justification they need to cooperate with U.S. enforcement efforts.

The Nuclear Elephant in the Room

The four lines of effort outlined above, if pursued in concert, could delay Iran's ability to rearm itself and its proxies with missiles, drones, and other conventional weapons. They cannot directly achieve NSPM-2's first objective of denying Iran a nuclear weapon, however. Iran's uranium enrichment program has reached the point, in terms of its capabilities and stockpile, that no export restrictions could prevent Tehran from amassing enough fissile material to fuel a small arsenal of weapons, which it could then deliver on its existing missiles or through cruder means, such as smuggling a bomb in a shipping container.

Only military force or a negotiated agreement can now delay or prevent Iran from crossing the nuclear threshold. Yet an effective export control policy that limits Iranian rearmament can increase the odds of success of both approaches. Israel's October strikes reportedly damaged

³² "The Return of UN Sanctions on the Islamic Republic of Iran," U.S. Department of State, September 19, 2020, available at <https://2017-2021.state.gov/the-return-of-un-sanctions-on-the-islamic-republic-of-iran/>, accessed on February 26, 2025.

³³ John Caves, John Krzyzaniak, and Valerie Lincy, "Trigger Warning: The Consequences of Snapping Back Sanctions on Iran," Iran Watch, January 31, 2023, available at <https://www.iranwatch.org/our-publications/policy-briefs/trigger-warning-consequences-snapping-back-sanctions-iran>, accessed on February 26, 2025.

Iranian air defenses and left strategic sites exposed to a future attack,³⁴ which Israeli Prime Minister Benjamin Netanyahu has recently hinted at.³⁵ Export controls can help extend that window of Iranian vulnerability, as well as limit Iran's ability to retaliate after a strike. Iran's vulnerability, in turn, makes the threat of military action more credible, which provides the United States with leverage should the administration choose to enter into nuclear negotiations with Tehran.

If Mr. Trump is serious about confronting Iran and achieving the policy goals outlined in his memo, export controls have a substantial role to play. They will need to be pushed forward in a concerted manner, and the time to do it is now.

³⁴ Annika Ganzeveld, "The Consequences of the IDF Strikes into Iran," Institute for the Study of War, November 12, 2024, available at <https://www.understandingwar.org/backgroundunder/consequences-idf-strikes-iran>, accessed on February 19, 2025.

³⁵ Eugenia Yosef, Ibrahim Dahman, Irene Nasser, Jennifer Hansler and Mostafa Salem, "Netanyahu vows to 'finish the job' against Iran with support from Trump," CNN, February 17, 2025, available at <https://www.cnn.com/2025/02/16/middleeast/heavy-bombs-israel-rubio-visit-intl/index.html>, accessed on February 19, 2025.

Appendix: List of Policy Recommendations

China and Other Transshipment Hubs

Recommendation 1 (Congress, White House, Commerce Department): Revise the legal and regulatory authority providing for the designations of Destinations of Diversion Concern by:

- a) expanding the goods eligible for the imposition of a license requirement to include the HTS categories represented on the Iran FDP Rule List (Supplement No. 7 to Part 746 of the EAR), and;
- b) removing the mandate that a license requirement with a presumption of denial take effect with regard to all exports of a listed good to a designated country, and;
- c) establishing an end-user scope that imposes a more stringent license requirement for exports of listed goods to entities in a designated country that have certain characteristics associated with red flags for illicit trade (e.g., recently registered, sole proprietorship, address shared by multiple entities), while maintaining a less stringent license requirement for exports to other entities.

Recommendation 2 (White House, Commerce Department): Designate China and Hong Kong as Destinations of Diversion Concern if the modifications outlined in Recommendation 1 have been carried out, OR designate Hong Kong as a Destination of Diversion Concern under the current statutory authority and utilize the President’s discretionary option to delay the imposition of a licensing requirement for 12 months.

Financial Institutions

Recommendation 3 (White House, Treasury Department): Issue a new executive order authorizing the imposition of sanctions on foreign financial institutions that facilitate the direct or indirect supply, sale, or transfer of controlled items to Iran (similar to the amended Section 11 of Executive Order 14024). Include a list of controlled items mirroring or resembling the Iran FDP Rule List and delineated by description and HTS code.

Recommendation 4 (Treasury Department): Require financial institutions to adopt a “Know Your Customer’s Customer” standard of due diligence for potential Iran-related transactions.

Recommendation 5 (Treasury Department): Publish a key term for Iranian export control evasion and instruct financial institutions to file a suspicious activity report (SAR) coded with that term in instances of suspected Iranian attempts to obtain controlled items.

Allied Export Enforcement Coordination

Recommendation 6 (Commerce Department, State Department): Harmonize the Iran FDP Rule List with Annex II of Council Regulation (EU) 2023/1529.

Recommendation 7 (State Department): Urge the European Union and the United Kingdom to match U.S. designations of Iran-related entities pursuant to Executive Orders 13382 (NPWMD), 13224 (SDGT), and 13949 (IRAN-CON-ARMS-EO) on their respective Consolidated Sanctions Lists.

Recommendation 8 (Treasury Department, State Department): Encourage the European Union, the United Kingdom, and other allies to require financial institutions to perform goods-based due diligence and to adopt a “Know Your *Customer’s* Customer” standard of due diligence for potential Iran-related transactions, as outlined in Recommendations 3 and 4.

Recommendation 9 (Commerce Department, State Department): Encourage the European Union to adopt a legal framework for designating countries of diversion concern with regard to Iran, as in Article 12f of Council Regulation (EU) 833/2014 but modified along the lines outlined in Recommendation 1.

Snapback of UN Sanctions

Recommendation 10 (State Department, U.S. Permanent Representative to the United Nations): Coordinate with France, Germany, and the United Kingdom for one of those governments (or the three jointly) to trigger the snapback mechanism with sufficient time for U.N. Security Council sanctions to resume effect before October 1, 2025. This could require initiation of the JCPOA’s Dispute Resolution Mechanism no later than July 25 and notification of the Security Council of Iran’s significant non-performance under the JCPOA no later than August 29.³⁶

³⁶ Presuming that the Security Council does not normally conduct business on Saturdays or Sundays (thereby precluding a process from being initiated on one of those days), this timeframe allows for completion of the 35-day JCPOA Dispute Resolution Mechanism followed by the 30-day Security Council snapback process. See: “Resolution 2231 (2015),” United Nations Security Council, July 20, 2015, pp. 4, 19-20, available at [https://docs.un.org/en/S/RES/2231\(2015\)](https://docs.un.org/en/S/RES/2231(2015)), accessed on February 24, 2025.

About the Authors

John Caves is a Senior Research Associate at the Wisconsin Project on Nuclear Arms Control, where he is responsible for the organization's Iran and Russia research. John oversees a project on Iran sanctions, assists with managing [Iran Watch](#), and is responsible for content related to Iran and Russia in the Risk Report database.

Valerie Lincy is the Wisconsin Project's Executive Director. She leads the organization's research on weapons of mass destruction supply networks, which is used by governments and companies to support sanctions implementation and counterproliferation actions.

About the Wisconsin Project

The Wisconsin Project on Nuclear Arms Control is a non-profit, non-partisan organization based in Washington D.C. that conducts research, advocacy, and public education designed to inhibit the spread of nuclear, chemical, and biological weapons and the missiles to deliver them. The organization was founded in 1986 by Gary Milhollin, in cooperation with the University of Wisconsin.

The Wisconsin Project's mission is to reduce the risk that exports will accelerate the proliferation of weapons of mass destruction. The Project helps governments comply with the export restrictions in international agreements and helps them ensure that their national controls on strategic goods are enforced. The Project also publicizes clandestine transactions in these goods and draws attention to weaknesses in trade agreements and national laws. Through its research, testimony, and publications, the Project has influenced the export policies of major supplier countries.

About Iran Watch

Iran Watch is a website published by the Wisconsin Project that monitors Iran's capability for building nuclear weapons and long-range missiles as well as Iran's transfers of drones and missiles to other countries and non-state actors. The purpose of the website is to increase public awareness of the strategic situation in Iran and to make detailed knowledge of Iran's weapon potential available to policymakers, the media, private scholars, and the public. The site contains thousands of primary source documents related to Iran, as well as reports on Iran's nuclear and missile programs, profiles of the entities involved in or supporting these programs, and analysis of the international effort to halt them.