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THE NEXT GENERATION OF SANCTIONS

A Strategy of Coercive Economic Policy for the Next President

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About the Authors



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About the Papers for the Next President Series

The Papers for the Next President series is designed to assist the next president and his or her team in crafting a strong, pragmatic, and principled national security agenda. The series explores the most critical regions and topics that the next president will need to address early in his or her tenure and includes actionable recommendations designed to be implemented during the first few months of 2017.

Cover Images

The next U.S. president will face a number of early decisions about the direction of key sanctions regimes. Over the course of the administration, he or she will also need to respond to challenges in sanctions implementation to maintain the strength of this tool. This paper offers recommendations for immediate and longer-term decisions and policymaking on sanctions.

Executive Summary

Economic sanctions have become a leading, bipartisan tool of American foreign policy. To quote U.S. Treasury Secretary Jacob Lew, “Economic sanctions have become a powerful force in service of clear and coordinated foreign policy objectives – smart power for situations where diplomacy alone is insufficient, but military force is not the right response.”¹ America’s growing use of sanctions is driven not only by the executive branch: Strong bipartisan congressional majorities in recent years have enacted sanctions against Iran; Russia; the Islamic State terrorist group (IS); the Democratic People’s Republic of Korea (DPRK), or North Korea; and Venezuela, among others.

The next American president and his or her sanctions team at the Treasury and State departments will almost immediately face a series of key challenges, issues, and decisions about the direction of major sanctions programs. Some of these include:

- Ensuring continuation of strong multinational sanctions on Russia, barring a change in Russian policy toward Ukraine.
- Balancing implementation of the Joint Comprehensive Plan of Action (JCPOA) with Iran, which relieved many sanctions, with continued sanctions implementation targeting Iran’s support for terrorism, development of ballistic missiles, and efforts to destabilize the region.
- Maintaining economic pressure on the Islamic State terrorist group.
- Working with Congress to terminate the U.S. embargo on Cuba.
- Enhancing multilateral enforcement of sanctions on North Korea.

Beyond the policy measures that will underlie decisions on these issues, the next president will need to address a series of growing challenges related to sanctions implementation and enforcement – challenges that, if left unchecked, may erode the efficacy of American sanctions in the future. These challenges include:

- Ensuring cooperation with allies to manage both policy-level alignment on sanctions programs and alignment on technical implementation.
- Mitigating the impacts of the “de-risking” trend in the financial sector that has seen many U.S. and European banks withdraw from business to avoid higher-risk jurisdictions and clients.
- Improving cooperation and information-sharing with the private sector and expanding the U.S. government’s ability to analyze costs and benefits of different sanctions options.
- Avoiding sanctions overuse in ways that might undermine the effectiveness of the tool over time.

Addressing these issues will require the next president and his or her team to move quickly after Inauguration Day – and in some cases prior to inauguration – to signal intentions, work with allies, and begin strengthening the U.S. sanctions apparatus. Indeed, moving quickly will give the next president the ability to make important changes in how the U.S. government crafts and executes sanctions, and in how it manages the bureaucracies that will shepherd these national security tools into the next major stage of their evolution.

A Sanctions Checklist for the Next President's First 100 Days

The next president will face key sanctions decisions early in his or her tenure, some coming even prior to Inauguration Day. Selected early actions on sanctions for the next president should include the following.



Call for European Union unity on Russia sanctions

European Union (EU) sanctions are set to expire on January 31, 2017, and Europe faces growing internal divisions about the future of its sanctions against Russia. With European leaders scheduled to discuss Russia policy in October and decide the future of the major economic sanctions on Russia by the end of December, the U.S. president-elect should signal to the EU that it should renew the sanctions for a period of at least six months to preserve the status quo while his or her administration reviews its Russia strategy during the first half of 2017. A failure by the EU to renew sanctions would severely limit the new president's policy options while creating an uneven playing field, and legal confusion, between U.S. and European companies doing business in Russia.



Signal support for the Iranian nuclear deal while aggressively addressing Iranian provocations

The next American president should continue the Joint Comprehensive Plan of Action (JCPOA), which has provided clear nuclear security benefits to the United States and its allies. However, he or she must also be prepared for Iran to test the new administration early on with a series of provocative actions, such as a ballistic missile test or a bid to increase support for Hezbollah or other terrorist groups. The president should be prepared to quickly deploy tough new economic sanctions in response to any such provocation.



Launch a new multilateral enforcement effort on North Korea sanctions

U.N. Security Council Resolution 2270 (2016) and U.S. sanctions on North Korea announced in March and June of 2016 provide a strong foundation for global economic pressure against North Korea in response to its nuclear weapons program.² Resolution 2270 is among the most stringent U.N. Security Council sanctions programs ever adopted, expanding on prior targeted measures to mandate tough new financial sanctions, requiring that states inspect North Korean cargo ships and airplanes, and restricting the sale of some of North Korea's key exports. The challenge for the next president will be to ensure that these sanctions are fully enforced while developing additional economic measures to impose if North Korea continues to test nuclear weapons and ballistic missiles. The next administration should launch a new multilateral sanctions enforcement effort, including offering capacity-building assistance to foreign governments to expand their sanctions enforcement efforts.



Announce plans to overhaul the U.S. sanctions apparatus to improve international coordination, establish new private-sector feedback loops, and address growing systemic challenges in sanctions implementation

The rapid growth in use of U.S. sanctions has in many ways outstripped the sanctions capacity of both the U.S. government and its allies. For example, the use of sanctions by the United States and ad hoc coalitions of like-minded allies, such as the U.S.-EU sanctions on Russia, has created new challenges in coordinating sanctions regimes across multiple jurisdictions. U.S. sanctions have also been affected by the growing "de-risking" trend in the international financial sector, and changes in global information technology have significant implications for the way in which sanctions are implemented over the medium term. The next U.S. president should launch a series of steps to overhaul the U.S. sanctions apparatus to improve sanctions coordination, including a new "G7+" multilateral coordination mechanism with key allies and a new Treasury Department-led Sanctions and Financial Crime Advisory Board to improve cooperation and dialogue with the private sector, nongovernmental organizations (NGOs), and independent experts.

The next president will need to begin making decisions about coercive economic measures even prior to Inauguration Day.

Introduction

It is difficult to overstate the extent to which the U.S. use of sanctions has exploded as a tool of foreign policy over the last decade.³ The Treasury Department's Office of Foreign Assets Control (OFAC), the agency that administers U.S. sanctions programs, currently manages 28 sanctions programs covering countries from Russia to Yemen, and non-state actors from drug cartels to those responsible for cyberattacks on the United States.⁴ As Treasury Secretary Jacob Lew said in March 2016, "Economic sanctions have become a powerful force in service of clear and coordinated foreign policy objectives – smart power for situations where diplomacy alone is insufficient, but military force is not the right response."⁵

The next American president will face a series of early decisions about the direction of key American sanctions regimes, including those against Iran, Russia, the Islamic State terrorist group (IS), Cuba, and North Korea. Indeed, the next president will need to begin making decisions about coercive economic measures even prior to Inauguration Day, given that world leaders will be looking for signals from the president-elect about his or her intentions regarding Iran and Russia sanctions. Strong signaling to demonstrate leadership, a willingness to act with key international partners, and the capacity for flexibility or adaptation will buy the next American president time to develop his or her own policies. A misstep will force the next president to deal with early foreign policy challenges.

Over the course of his or her administration, the next president will also need to take a series of steps to respond to growing challenges in sanctions implementation to keep the U.S. sanctions tool strong for years to come.

This paper, the fifth in a Center for a New American Security (CNAS) series of papers outlining key national security recommendations for the next administration, sets the scene on key sanctions regimes and on the sanctions implementation challenges that the new president will face. Taking into account the opportunity a new administration presents for making structural and substantive changes to improve the efficacy and availability of sanctions, this paper offers recommendations for immediate and longer-term decisionmaking on sanctions.

Scene Setter: Five Key Sanctions Regimes

The next U.S. president will face key early decisions with respect to five of the United States' most important sanctions regimes: Iran, Russia, IS, Cuba, and North Korea. The next president will need to signal intentions on several of these programs even prior to Inauguration Day as part of the broader work to establish a foreign policy program and set the tone for engagement with international competitors and allies.

Iran

The next president will face two early challenges regarding Iran sanctions: continuing to implement the Joint Comprehensive Plan of Action (JCPOA) nuclear agreement while simultaneously maintaining pressure on Iran over its ongoing non-nuclear illicit activities, such as its development of ballistic missiles and its support for Hezbollah.

Although far from perfect, the JCPOA has provided clear nuclear security benefits to the United States and to the broader international community, and the next president should continue to implement the agreement. The JCPOA has forced Iran to dismantle key pieces of its nuclear infrastructure and has greatly expanded international monitoring and oversight over Iran's remaining nuclear facilities. For example, Iran has eliminated 97 percent of its uranium stockpile, destroyed the reactor core at the Arak nuclear site, and disabled more than two-thirds of its centrifuge capacity.⁶ Most leading nuclear experts agree that the JCPOA is likely to effectively block Iran's ability to develop a nuclear weapons capability for the initial 10 years of the agreement, though critics of the deal raise serious concerns that the JCPOA will permit Iran to rapidly expand its nuclear capabilities starting in 2026.⁷

of Iranian banks, effectively authorizing the resumption of international financial dealings with Iran; and terminated sanctions on Iran's automotive, shipping, and ports sectors.⁸ In light of the JCPOA, the World Bank now estimates that Iran's gross domestic product (GDP) will grow at 4.2 percent in 2016 and 4.6 percent in 2017, compared with a sharp economic decline in 2012 and 2013, the height of the sanctions period, and more modest average growth across 2014 and 2015.⁹

The JCPOA did not, however, terminate U.S. or European sanctions unrelated to Iran's nuclear program, including sanctions over Iran's support for Hezbollah and other terrorist groups, sanctions targeting Iran's ballistic missile program, and sanctions targeting Iranian human rights abuses. Practically speaking, international companies entering the Iranian market must ensure that they refrain from dealing with Iranian entities that remain subject to these sanctions, such as Iran's Islamic Revolutionary Guard Corps (IRGC). Additionally, they must avoid dealings with Iranian entities that are owned or controlled by the IRGC or other sanctioned entities, which the United States may sanction in the future for engaging in illicit activities. The Financial Action Task Force (FATF), the international body that sets standards for combating both money-laundering and terrorist financing, has kept Iran on its short list of noncooperating jurisdictions subject to countermeasures, commonly known as the FATF Countermeasures List, though in June 2016 FATF suspended the countermeasures on Iran for one year.¹⁰ Inclusion on the list is a result of Iran's long-standing financial support for terrorism and woeful inability to meet international standards on ensuring transparency and conducting appropriate due diligence in its financial system. The JCPOA also left in place the U.S. embargo on Iran, and most U.S. companies remain prohibited from entering the Iranian market.¹¹ (Foreign subsidiaries of U.S. compa-

The next president will face two early challenges regarding Iran sanctions: continuing to implement the Joint Comprehensive Plan of Action while simultaneously maintaining pressure.

In exchange for these nuclear commitments, the United States and international allies have terminated most of the sanctions prohibiting non-American companies from conducting business in Iran. Among other steps, the JCPOA has released billions of dollars of frozen Iranian government assets; terminated sanctions on Iran's oil sales and sanctions against investments in Iran's energy sector; ended the blacklisting of dozens

of Iranian banks, effectively authorizing the resumption of international financial dealings with Iran; and terminated sanctions on Iran's automotive, shipping, and ports sectors.)

International businesses will be looking for a clear signal from the next president about the future of the JCPOA as they decide whether to engage in significant business opportunities in Iran. The next president's early statements on the JCPOA will shape businesses' perceptions of the political risk associated with business



Unwinding some Iran sanctions under the nuclear accord is contingent upon Tehran's implementation of nuclear commitments. Pictured here, U.S. Secretary of State John Kerry meets one-on-one with Iranian Foreign Minister Javad Zarif during the final round of nuclear negotiations for the accord in Vienna on June 27, 2015. (U.S. Department of State/Flickr)

opportunities in Iran. Furthermore, in recent months, Iran has repeatedly and loudly complained that the United States has failed to adequately implement the sanctions relief agreed to in the JCPOA. While many of the Iranian complaints lack merit, the next administration will have to continue the Obama administration's efforts to implement the agreement by answering technical questions from the business community and by continuing to clarify areas of allowed business.

At least as important as continuing JCPOA implementation, the next president will face the simultaneous task of maintaining effective economic pressure on Iran to expose and condemn its ongoing support for terrorism, its ballistic missile program, and regionally destabilizing activities such as intervention in Syria. Iran's history of provocative actions, including multiple rounds of ballistic missile tests in the months immediately after the JCPOA went into effect,¹² suggest that the next president must be prepared for Iran to test his or her administration by engaging in provocative acts shortly after Inauguration Day. Potential examples of provocative Iranian actions include a well-publicized medium- or long-range ballistic missile test or an overt transfer

of weapons to Hezbollah or to another Iranian proxy terrorist group. Both the Iranians and regional U.S. allies, such as Israel and Saudi Arabia, will carefully watch the next president's response to any early provocation as a signal of how the incoming administration plans to check Iran's ongoing destabilizing activities over the next several years.

The next administration will need to effectively communicate to the Iranians that it is Iran's destabilizing activities and opaque business environment – rather than a failure of U.S. implementation of the JCPOA – that continue to deter some multinational companies from entering the Iranian market. For example, if Iran wants to fully reconnect to the international financial sector, Iran will need to increase corporate transparency so that international banks are able to ensure that they are not dealing with companies subject to remaining, non-nuclear sanctions. Similarly, Iran will likely not be able to fully reconnect with the international financial system until the country develops a credible plan to curtail its financial support for terrorism, overhauls its terror finance regulations, and achieves removal from the FATF blacklist.

Over the longer term, the next president will face a set of policy choices regarding whether and how to negotiate with Iran to offer further sanctions relief in exchange for Iranian concessions beyond its nuclear program.¹³ The president will also face a set of questions around whether and how to allow greater engagement with Iran by U.S. citizens and U.S. companies, for example with respect to greater cultural exchanges, and whether there are ways that U.S. business engagement in Iran could help empower ordinary Iranians relative to the Iranian government. Even while such issues need not be part of the first set of policy priorities for incoming U.S. foreign policymakers, the next president will be well-served to begin planning around these matters in early days of the next administration.

Russia

Sanctions have been a central element of the U.S. and European strategy to deter Russia from further aggression in Ukraine and to persuade Moscow to de-escalate its involvement in eastern Ukraine after Russia's military intervention there and its seizure of Crimea in 2014. These sanctions, in some fashion, are highly likely to be a feature of ongoing foreign policy toward Russia, and the next U.S. president will have an important role in directing relations with Russia through his or her approach to sanctions. U.S. and European Union sanctions on Russia include bans on lending to major Russian state-owned banks and energy companies; sanctions prohibiting U.S. and European energy companies' involvement in Arctic, deep water, and shale oil projects in Russia (U.S. and EU companies are allowed to continue engagement in conventional oil and most enhanced oil recovery projects in Russia); sanctions that freeze the assets of, and prohibit, companies doing business with key members of Russian President Vladimir Putin's inner circle; and sanctions against numerous Russian defense companies.¹⁴ The sanctions also include a near-complete ban on doing business with Russian-occupied Crimea.

Russia sanctions have had a major economic impact. The ban on lending to major Russian state-owned companies, for example, forced Russian banks to repay more than \$100 billion to Western lenders in 2014 and \$74 billion in 2015, contributing to large capital outflows that Russia experienced both of those years.¹⁵ The sanctions forced the Russian government to announce a state-sponsored bailout program for Russian companies affected by sanctions, and, partly as a result, Russia has seen its foreign reserves drop by more than \$150 billion since early 2014.¹⁶ At a macroeconomic level, both Russian officials and international organizations have

estimated that the sanctions, combined with Russia's own retaliatory countersanctions, cost Russia roughly 1 percent to 2 percent of GDP.¹⁷

Despite this economic impact, U.S. and European sanctions on Russia have not yet achieved their stated diplomatic and political objective: persuading Russia to implement its obligations under the Minsk cease-fire deal that Russia and Ukraine agreed to in early 2015.¹⁸ U.S. officials argue that the sanctions have likely deterred further Russian aggression in Ukraine and that daily violence in eastern Ukraine has fallen since early 2015. Nonetheless, Russia continues to provide significant material support to separatist groups in eastern Ukraine and has not restored sovereignty over the Ukrainian side of the Ukraine/Russia border to the Ukrainian government. Indeed, barring a major and unexpected diplomatic breakthrough this fall, Russian noncompliance with Minsk, continued Ukrainian noncompliance with Minsk, and ongoing political crises in Kiev mean that the next president is likely to inherit a sanctions program linked to a Minsk agreement that neither Russia nor Ukraine is likely to implement in its current form.

Given continued stalled progress in implementing the Minsk peace agreement and growing European concern about the economic costs of continuing Russia sanctions, European political support for the Russia sanctions has begun to wane.¹⁹ For example, an increasing number of European politicians have called on the EU to reassess



The lifting of major economic sanctions against Russia is linked to implementation of the Minsk agreement. With Minsk progress stalled and European concern about the economic costs of continuing sanctions, some European countries' support for Russia sanctions has begun to wane. Pictured here, leaders of Belarus, Russia, Germany, France, and Ukraine meet in Minsk on February 11, 2015, to adopt the "Package of Measures for the Implementation of the Minsk Agreements." (President of Russia)

the EU's Russia sanctions policy. Political opposition to the sanctions is likely to further increase later this year.²⁰

Unlike U.S. sanctions on Russia, which will continue until the executive branch revokes them, the European Union must renew the key Russia sanctions every six

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months. With the EU's renewal of the sanctions at the beginning of July, the next decision over whether to continue them will be made by January 2017.²¹ This will occur shortly after the U.S. presidential election but before Inauguration Day. Key EU member states will be looking to the president-elect for a signal of future U.S. sanctions policy toward Russia.

Barring an unexpected diplomatic breakthrough with Russia this fall, the next president will have a clear interest in the EU's maintaining Russia sanctions for at least an additional six months, through mid-2017. Regardless of whether the next president ultimately decides to continue the current U.S. posture toward Russia or seeks to reset the U.S.-Russia relationship, a decision by the EU to terminate sanctions by December would eliminate much of the international economic pressure on Moscow before the incoming president is able to develop his or her strategic approach to Russia and its neighbors. It would also open a major gap between U.S. and European sanctions programs, creating a sharply uneven playing field between U.S. and European companies operating in the Russian market and a degree of confusion for multinational companies attempting to comply with various sanctions regimes.

Beyond the immediate challenge of renewing European Union sanctions by December, the next U.S. president will face a broader set of strategic questions about the future of Russia sanctions in a world where neither Russia nor Ukraine appears likely to ever implement the Minsk peace agreement. The next administration will need to work with the EU to ensure that sanctions remain linked to a viable diplomatic and political set of outcomes and do not simply become a frozen response to a frozen conflict.

Islamic State Terrorist Group

Despite recent progress in the international fight against IS, the next U.S. president will enter office facing the most powerful and richest terrorist group since al Qaeda. Sanctions to expose, condemn, and sometimes impair IS activity have become a feature of presidential policy-making in the last couple of years. The next president will have the opportunity to continue this approach, or select or prioritize other policy tools in this fight.

U.S. and international sanctions, including two U.N. Security Council resolutions, broadly prohibit international companies from engaging in business or financial transactions with IS and require banks to freeze any identified IS assets.²² Sanctions prohibit the purchase of IS-looted Syrian antiquities, and FATF guidance, as well as U.S. and Iraqi government regulations, broadly prohibit banks operating inside IS-controlled territory from accessing the international financial system. Governments and banks have sought to identify and stop financial flows related to fighters traveling to and from IS-controlled territory.

Despite these sanctions, IS remains capable of generating hundreds of millions of dollars annually. This comes largely from its control of territory in Syria and Iraq, which enables IS to profit off oil theft and smuggling, extorting businesses within its territory, collecting road tolls and other taxes, looting banks, and confiscating income earned by people living in IS-controlled territory.²³ IS also generates smaller sums from outside sources, such as fundraising and ransom payments for kidnapped individuals. IS-backed and IS-inspired terrorist attacks, from Paris and Brussels to San Bernardino, California, illustrate that IS and its supporters continue to be able to move the limited amounts of money needed to facilitate terrorist attacks. IS also continues to engage in terrorist recruitment and fundraising via online social media and propaganda outlets, activities that to date have proved difficult to attack with economic sanctions.

Aside from sanctions, the U.S. military has played an important role in cutting off IS revenue sources by bombing oil production and transportation facilities and, more recently, IS cash houses.²⁴ The U.S. government also succeeded in persuading the Iraqi government to withhold salary payments to government officials living in IS-controlled territory, which ended IS' ability to skim off millions of dollars in illegal "taxation" schemes.²⁵

The next president will need to continue the existing efforts to counter IS financing while addressing several emerging trends. First, as IS expands its footprint in Libya, Egypt, and other countries outside its core territories in Syria and Iraq, the United States and its allies

will need to redouble efforts to ensure that IS is unable to transfer funds generated in Syria and Iraq to its affiliates elsewhere.²⁶ Second, IS' use of social media for fundraising as well as propaganda and recruitment, already a significant source of concern, is only likely to increase as military action in Iraq and Syria reduces IS revenues from within its territory.²⁷ The next president will also need to adapt the U.S. approach to undercutting IS financially as the group evolves its revenue model in response to successful U.S. and international efforts to reduce existing IS revenue streams.

Cuba

Since the end of 2014, the Obama administration has taken a series of steps to ease the majority of U.S. sanctions that the executive branch has the authority to loosen without Congress passing new legislation to repeal the U.S. embargo on Cuba. The administration has taken these steps in line with a broader shift in U.S. policy regarding Cuba, from a posture of isolation and general hostility toward the Cuban government toward a policy of normalizing diplomatic relations and increased political, cultural, social, and economic engagement with Cuba. If the next president decides to continue this policy trajectory, she or he will have to take additional steps with Congress to unwind the remaining bilateral financial and diplomatic barriers.

As part of this shift in U.S. policy, the Obama administration has already authorized significant trade ties between the United States and the Cuban private sector; allowed U.S. airlines and passenger ships to begin service to Cuba; and permitted U.S. citizens to plan their own independent travel to Cuba, although such travelers must continue to self-certify that their travel falls into a category authorized by U.S. law, such as cultural or educational exchanges, or to visit family in Cuba. The Obama administration has also taken steps to authorize direct new U.S. financial ties with Cuba, and at least one U.S. bank, Florida-based Stonegate Bank, has begun to offer some Cuba-related financial services.²⁸ Obama administration officials have also indicated in briefings to the private sector that they are prepared to consider applications by U.S. companies to engage in business in Cuba beyond the types of business that the Obama administration has already generally authorized, where a U.S. company can show that the proposed business serves a specific U.S. policy interest.

Both the Democratic presidential nominee, Hillary Clinton, and the Republican presidential nominee, Donald Trump, have publicly expressed support for the Obama administration's unwinding of Cuba sanctions.²⁹ However, several barriers remain to any further sanctions-easing steps.

First, at a legal level, the Helms-Burton Act and other statutory provisions of the U.S. embargo effectively prevent further major sanctions reversals, such as generally authorizing all U.S. travel to Cuba, including for tourism. Second, thousands of U.S. citizens and U.S. companies have legal claims against the Cuban government for expropriating property after the Cuban Revolution in 1959, totaling nearly \$2 billion (not including interest).³⁰ As a matter of both existing U.S. law and fairness to the

The principal challenge will be to repeal the embargo while still retaining sufficient pressure on the regime to encourage Cubans to settle U.S. claims and advance political and civil society reforms.

claimants, the U.S. government will need to reach a resolution for the claims as a component of further easing of sanctions. In addition, the fear of lawsuits by U.S. claimants has slowed the process of some U.S. companies beginning business in Cuba, as companies fear that claimants could try to garnish assets or revenues coming from Cuba to satisfy their claims. Third, the United States continues to have a policy interest in maintaining pressure on the Cuban government to continue to draw attention to its abuses of rights and civil freedoms and to encourage further political and economic reforms within Cuba. The principal challenge facing the next president will be to work with Congress to repeal the embargo while still retaining sufficient pressure on the regime to encourage Cubans to settle U.S. claims and advance political and civil society reforms.

North Korea

The next president will inevitably be called on to advance implementation of a powerful new set of sanctions on North Korea to address its pernicious nuclear security threat, regional destabilization, and abuse of human rights. The United States and its allies qualitatively increased sanctions on North Korea in the first half of 2016, transforming what had been a limited international sanctions regime into an extensive, internationally supported ban on many types of business with North Korea. In March, United Nations Security Council

Resolution 2270 (2016) tightened financial sanctions on the North Korean government; required all countries to begin inspecting all North Korean vessels for illicit cargoes; prohibited countries from providing new boats or aircraft to North Korea; barred the sale of aviation fuel to North Korea; and prohibited countries from purchasing a variety of North Korea's export goods, among other sanctions.³¹ After Resolution 2270, the United States tightened American sanctions on North Korea by issuing Executive Order 13722, blocking additional financial transactions with North Korea and establishing a legal framework to impose U.S. sanctions on companies that do a variety of business activities with North Korea.³² The United States further tightened financial sanctions on North Korea in June 2016 by identifying North Korea as a "jurisdiction of primary money laundering concern" under Section 311 of the USA Patriot Act.³³

With these new sanctions, the next president will inherit the toughest U.S. and international sanctions regimes ever levied against North Korea. He or she will face two challenges, however, in fully implementing them. First, many of North Korea's illicit activities, such as exports of weapons, take place in poorly regulated jurisdictions that have weak sanctions enforcement institutions. The next president will need to identify policy and diplomatic measures to encourage and facilitate broad multilateral implementation of the new sanctions on North Korea. Second, the next president must continue to engage China on effective sanctions enforcement. China is responsible for a significant majority of

North Korea's external trade, which appears to have expanded significantly in recent years (before the recent sanctions were enacted).³⁴ China has historically been wary of imposing or enforcing rigorous sanctions on North Korea given Chinese concerns about potentially triggering instability in Pyongyang or economic refugee flows from North Korea into China. While China did vote for U.N. Security Council Resolution 2270 (2016), continuous U.S. engagement will likely be needed to ensure full Chinese enforcement of the sanctions provisions, a critical component of achieving progress in countering the North Korean security threat.

Scene Setter: Growing Systemic Challenges of Sanctions Implementation

With sanctions becoming a central tool of American foreign policy, it should come as no surprise to the next president that his or her administration will need to address emerging challenges that affect sanctions implementation in the near term and that may impact the U.S. ability to use sanctions effectively over the long term. The United States has a critical interest in ensuring a strong foundation for sanctions for the years to come, given that future presidents, regardless of party, will need coercive economic tools capable of inflicting real costs on the nation's adversaries that are short of military action. Challenges including multilateral coordination, bank de-risking, an overtaxed U.S. sanctions bureaucracy, and risks associated with sanctions overuse will require the next president's attention.

Challenges of Multilateral Coordination

Many of today's key sanctions programs are implemented by "plurilateral" groups of countries, as these sanctions are neither unilateral U.S. sanctions, nor are they universally binding sanctions endorsed by the United Nations. Examples of plurilateral sanctions programs include the U.S. and European Union sanctions on Russia, which have also been joined by Canada, Australia, Japan, and other countries. Another example is the U.S. and EU sanctions on the regime of Bashar al-Assad in Syria, which the U.N. has not made universally binding because of Russian support for Assad. Plurilateral sanctions have played a critical role in expanding on United Nations sanctions to magnify the impact of this coercive economic tool. For example, United Nations sanctions never directly restricted Iranian oil sales or required countries to cut off most Iranian banks from the international financial sector, but the United States



The next U.S. president will be responsible for implementing the toughest U.S. and international sanctions ever imposed on North Korea in response to the country's nuclear weapons and ballistic missiles programs. Pictured here, a road-mobile intercontinental ballistic missile is displayed during a North Korean parade. (Stefan Krasowski/Flickr)

and European Union were able to leverage U.N. sanctions as a basis for imposing such additional punishing economic sanctions on Iran under U.S. and European law between 2010 and 2014. The plurilateral nature of sanctions significantly heightens impact on the intended targets, but the fact that different countries use different legal regimes to impose sanctions has created sets of overlapping but not identical rules. In turn, this creates compliance challenges for business and undermines efficacy of sanctions as a policy tool.

A handful of examples help to illustrate the challenge. A 2015 white paper by PricewaterhouseCoopers found that there are more than 40,000 total names and aliases in different countries' sanctions lists.³⁵ While the United States and allied governments make efforts to align the specific lists of people and companies subject to sanctions, major gaps remain with respect to the specific companies and individuals targeted by different countries' regimes.³⁶ Similarly, different countries' sanctions regimes are marked by different definitions of prohibited categories of products and services and by different regulations regarding the availability of licenses or other exceptions to sanctioned business.³⁷ These differences complicate private-sector compliance and create opportunities for companies in one country to gain a competitive advantage relative to foreign competitors by taking advantage of loopholes that exist in their country but not in others. The differences also increase com-

pliance costs for multinational companies that operate across multiple jurisdictions, using global supply chains, because they must ensure that their goods and services comply with all relevant sanctioning countries' rules. Finally, and perhaps most importantly, poor coordination can undermine the policy goals of sanctions by simply enabling companies in some countries to continue engaging in business that is prohibited for companies based in other countries, weakening the economic impact of the sanctions.

sanctions on Russia, Iran, North Korea, and IS. These groups have proved capable of generating support for U.S. sanctions programs. Furthermore, the ad hoc nature of these groups can offer a diplomatic advantage in bringing about unique sets of sanctions in that the group of countries interested in sanctioning one rogue state may differ from the group of countries interested in sanctioning a different rogue state. Major world powers will not be deadlocked on sanctions policy in one instance if they cannot agree on the approach in all cases. To take an example, the group of countries interested in imposing Russia sanctions is a different group from those wanting to cut off funds for IS.

Relying solely on bilateral engagement and such ad hoc groups, however, also has significant drawbacks. First, it requires the United States as a global leader on sanctions to reinvent the wheel diplomatically with each new sanctions regime, which can necessitate a significant investment of diplomatic capital. Second, and more importantly, the ad hoc approach to plurilateral sanctions generally results in relatively little attention being focused on aligning the technical implementation aspects of sanctions, which are often left to individual national regulators. Third, the ad hoc approach to plurilateral sanctions is poorly designed to address systemic issues that arise across sanctions regimes, such as the challenges posed by bank "de-risking" (described later) and other broader strategic challenges. Ensuring a solid

Ensuring a solid foundation for a world where plurilateral sanctions are the norm will require the next administration to develop a more systematic approach.

pliance costs for multinational companies that operate across multiple jurisdictions, using global supply chains, because they must ensure that their goods and services comply with all relevant sanctioning countries' rules. Finally, and perhaps most importantly, poor coordination can undermine the policy goals of sanctions by simply enabling companies in some countries to continue engaging in business that is prohibited for companies based in other countries, weakening the economic impact of the sanctions.

With respect to high-profile sanctions regimes, the United States typically builds diplomatic support for plurilateral sanctions through bilateral engagement and by establishing ad hoc international working groups to foster cooperation on specific sanctions regimes. For example, the State and Treasury departments have established ad hoc multinational working groups to promote

foundation for a world where plurilateral sanctions are the norm not the exception, and can be achieved with minimal collateral challenges will require the next administration to develop a more systematic approach to multinational sanctions coordination.

The United States also faces a complex set of challenges related to the most multilateral of sanctions regimes, the 13 ongoing United Nations sanctions regimes that cover terrorist groups, North Korea, and Libya, among other grave threats to international security.³⁸ These challenges include the ongoing risk of litigation to undermine such sanctions, particularly in Europe, by individuals subject to sanctions; gaps in internal coordination among member states within the U.N. when it comes to sanctions policy development; and the fact that many nations have limited capacity to implement U.N. sanctions, rendering their application – and

utility – uneven.³⁹ U.N. sanctions regimes generally serve U.S. interests, given the key role that the United States plays on the U.N. Security Council and the benefits that the United States obtains from sanctions that are legally binding on all countries. However, addressing U.N. sanctions challenges will remain an extremely important task for the next U.S. president to advance critical multilateral policy efforts and undergird further U.S. initiatives in these domains.

Bank De-risking and Enabling of Authorized Business

Another systemic issue the next president will face related to the continued use of sanctions is the financial inclusion and foreign policy challenge increasingly referred to by financial services professionals as de-risking. Over the past several years, most major multinational banks have sought to reduce their exposure to countries and lines of business they perceive as high-risk, particularly those that are seen as both high-risk and low-margin. For example, major banks have cut exposure in countries ranging from Mexico⁴⁰ to the United Arab Emirates,⁴¹ and a 2015 European Central Bank report found a marked reduction in correspondent banking beginning as early as 2002.⁴² While numerous factors are driving the de-risking phenomenon, most banks cite heightened regulatory scrutiny regarding potential violations of sanctions and anti-money laundering laws, combined with large fines for such violations when they occur, as a significant driver. And the phenomenon has been particularly prevalent with respect to countries subject to U.S. sanctions or perceived as being at risk of U.S. sanctions or money-laundering enforcement actions.⁴³

Bank de-risking does provide some policy benefits to the United States. For example, de-risking has clearly caused major international banks to exit their relationships with certain higher-risk actors, thereby limiting exposure to potential illicit financial activity. Additionally, U.S. and EU bank reviews of their correspondent banking customers have forced those customers, including a number of smaller and regional banks around the world, to overhaul internal compliance protocols in order to exclude illicit actors from their financial institutions, and thereby from the formal financial system. In one notable example, the Vatican's bank conducted a major upgrade in its compliance program after facing pressure from major Italian banking partners.⁴⁴ Concern about being de-risked by major U.S. and European banks has also been a significant factor in spurring offshore financial centers such

as Cyprus, reportedly a longtime haven for illicit and gray-market Russian money, and Lebanon, a longtime banking center for suspicious Middle Eastern financial flows, including financial flows related to Hezbollah and to Syria, to review and tighten national policies to fight money-laundering.⁴⁵

However, as the de-risking phenomenon has spread, it has begun to pose new challenges in sanctions implementation. This is particularly true with respect to ensuring that it remains possible for U.S. and international companies and nongovernmental organizations (NGOs) to retain access to banking services, or financial inclusion, to be able to engage in authorized transactions that are in U.S. interests. One example of the negative consequences of de-risking includes the effective cutoff of U.S. money transfer organizations' (MTOs) ability to use the formal financial system to move money to Somalia, because of the risk that banks perceive in moving any money into the territory of the terrorist group al-Shabab. As a result, MTOs have begun resorting to cash couriers to enable Somali-Americans to send personal remittances to relatives in Somalia.⁴⁶ This approach raises the cost of remittances and almost certainly has the practical consequence of making it easier for remittances to be diverted to the al-Shabab terrorist group and other illicit actors in Somalia. Moreover, as these remittance funds keep flowing, though through generally less formal and less regulated channels, law enforcement, counterterrorism, banking, and intelligence officials have less insight and less ability to pursue

Bank de-risking does provide some policy benefits to the United States.

and halt possible support for al-Shabab terrorists.

Development-focused NGOs and international organizations are increasingly speaking out about potential broader impacts on remittances and on financial inclusion as a result of the de-risking phenomenon. As a 2015 report by the Center for Global Development argued, "The policies that have been put in place to counter financial crimes may also have unintentional and costly consequences, in particular for people in poor countries."⁴⁷ The World Bank and the Group of 20 (G20) have also begun to raise concerns about the potential consequences that de-risking could have on global

development goals.⁴⁸

The de-risking phenomenon also creates an acute challenge for businesses and NGOs that seek to engage in specific authorized business in countries that remain subject to significant economic sanctions. This is because many banks have effectively exited such jurisdictions as a result of regulatory, cost, and reputational pressures, and are unwilling to extend financial services to customers there. For example, numerous charitable organizations report that they are effectively unable to use the financial system to send humanitarian relief money into Syria,⁴⁹ and NGO operations in Somalia and North Korea, among other countries, have also been impacted. Absent policy adjustments, all of these trends are likely to continue.

An Overextended U.S. Sanctions Apparatus

Growing U.S. use of sanctions has greatly outstripped the U.S. government resources available for sanctions policy, analysis, and implementation. The budget for the lead U.S. entity for sanctions crafting, implementation, and enforcement, the U.S. Treasury Department's sanctions and terrorism finance policy functions (excluding the Financial Crimes Enforcement Network), is \$117 million in 2016,⁵⁰ just 13.5 percent above the total budget from 2010.⁵¹ This rate of growth is barely above the rate of inflation and does not adequately reflect the substantial increase in the U.S. use of sanctions. To offer measures of comparison, the estimated cost of a single F-35C fighter aircraft is \$116 million, excluding engines,⁵² while in 2017 the United States plans to spend nearly \$146 million on foreign assistance in Côte d'Ivoire.⁵³

The overextended Treasury sanctions infrastructure has begun to create significant problems for both policymakers and the private sector required to comply with U.S. sanctions.⁵⁴ At a policy level, overtaxed resources reduce Treasury's ability to issue the executive orders, policy statements, regulations, and other guidance required to effectively promulgate and implement sanctions regimes. Resource constraints also sharply limit Treasury's ability to aggressively target individual

illicit actors given that imposing sanctions can require hundreds of hours of research, drafting, and review. Resource constraints have been particularly noticeable in limiting the United States' ability to implement

lower-priority sanctions policy programs, such as those targeting human rights abuses.

Resource constraints are also beginning to have an adverse impact on private-sector companies seeking to engage in authorized business consistent with U.S. sanctions policy. Treasury, for example, typically receives several thousand specific license applications each year from companies wishing to engage in business such as delivery of food and medicine in countries subject to U.S. embargoes. Discussions with lawyers and companies that regularly seek specific licenses from OFAC suggest that the typical wait for many licenses now exceeds 12 months, a time frame that often effectively precludes a company from engaging in the business. Companies also report growing delays in receiving answers to technical questions and other guidance from OFAC.

Limited Economic Analytic and Strategic Planning Capabilities

Underfunding of the Treasury Department's sanctions apparatus has had a particularly adverse impact on the U.S. government's ability to conduct rigorous business and economic analysis of sanctions to regularly evaluate their impacts on targets as well as the costs of sanctions for U.S. and other businesses affected by them.

For example, while the U.S. government has cited publicly available economic and commercial statistics to highlight the impact of sanctions on Iran, Russia, Syria, and other targets, the U.S. government has never published systematic economic analysis of either the impacts or the costs of these sanctions programs on their targets (or on bystanders). This lack of analytic data and analytic capacity makes it difficult for the U.S. government to systematically assess the relative costs and benefits of different sanctions options or to model the potential impacts of different sanctions on specific targets. U.S. officials at times rely on intuition and "back of the envelope" analysis in assessing potential sanctions options rather than on rigorous economic models that would enable policymakers to more effectively develop high-impact, low-cost sanctions authorities and enforcement strategies.

Moreover, this absence of analytic capacity means that Washington has no systematic mechanism for understanding potential aggregate costs of sanctions to U.S. companies or whether potential sanctions would likely have a significant adverse impact on a given U.S. company, or the economy (including attractiveness of the dollar as a reserve currency or store of value) more broadly. While the U.S. government, which must weigh broad national security interests, will generally prioritize foreign policy considerations over the concerns of

Growing U.S. use of sanctions has greatly outstripped the U.S. government resources available for sanctions policy, analysis, and implementation.

individual American companies in making sanctions policy, a more rigorous analytic capacity would better enable federal officials to mitigate costs and avoid unintended consequences associated with sanctions implementation.

Analytic gaps have also limited sanctions officials' bandwidth to fully analyze the ways in which changing industries and technology will impact sanctions over time. Companies report that OFAC, which continues to be principally focused on financial regulation, has limited industry expertise in some economic domains heavily targeted by sanctions, such as energy and information

and communications technology. As a result, it may be easy for regulators to misstep in policy execution, wasting time and resources of regulators and private-sector representatives alike in coordinating to retroactively adjust sanctions policy. An additional analytical gap for government sanctions officials stems from the difficulty of keeping up with how con-

stantly evolving payment methods, such as bitcoin and other virtual currencies, may facilitate sanctions evasion. The pace of technological change will be an ongoing challenge for U.S. officials, who must understand how trends such as the growth of cloud computing and more anonymous and distributed financial payment messaging will affect sanctions compliance over the medium term.

Finally, the U.S. government lacks the analytical ability to holistically and strategically “war game” different sanctions scenarios. As the United States continues to use sanctions on economically important targets such as Russia and Iran, it becomes increasingly important for officials to understand potential retaliation by sanctions targets and plan strategically for different escalatory scenarios.

Potential Long-Term Systemic Risks of Sanctions Overuse

Finally, a number of commenters have recently expressed concern that a U.S. overreliance on sanctions could potentially pose long-term risks to the nation's pre-eminence as a global financial center. These concerns were highlighted in a March 2016 speech by Lew, the U.S. Treasury secretary, who warned of “the risk that overuse of sanctions could undermine our leadership position

within the global economy, and the effectiveness of our sanctions themselves.”⁵⁵

There is no meaningful large-scale statistical evidence to suggest that sanctions are driving companies away from the U.S. financial system. The share of foreign exchange transactions⁵⁶ and global sovereign reserves⁵⁷ denominated in dollars has changed little in recent years. However, there is anecdotal evidence that individual multinational companies and some foreign banks are increasing their use of non-U.S. financial systems and currencies in order to avoid U.S. sanctions.⁵⁸ A number of governments, notably Russia and China, have begun to build credit-card payment processing networks that operate independently of the United States.⁵⁹ In 2015, China launched a new renminbi-denominated international payments system that could, over time, reduce multinational companies' reliance on the U.S. and European financial systems.⁶⁰ While several of these developments are driven by multiple forces unrelated to U.S. sanctions – China, for example, has multiple long-term interests in expanding the international use of its currency – the next administration should weigh potential long-term financial sector consequences as it develops sanctions programs. Regardless of the underlying cause for the growth of non-U.S. financial infrastructure, expanded alternatives to the U.S. financial system will likely diminish the efficacy of U.S. sanctions over the long term, given the relative decrease in the reach of the U.S. financial system and therefore the jurisdiction of U.S. sanctions. This presents a strategic challenge that sanctions policymakers must be prepared to address.

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Policy Recommendations

The next president and his or her team will need to address both the urgent challenges of individual U.S. sanctions programs and the growing systemic challenges to sanctions implementation across regimes. This will require both near-term and longer-term steps to signal the direction of key U.S. sanctions programs and to strengthen the foundations of the U.S. sanctions apparatus to keep this tool sharp for years to come. Moreover, this work should be viewed as an opportunity to put in place the framework for significant changes to address systemic sanctions challenges over the course of the administration. The fresh energy, ideas, and possibility for creative appropriation, or redistribution, of agency funding to address key needs in sanctions policy can go a very long way to advance and improve the use of this set of policy tools. Key recommendations for the next president follow.

Early Actions on Key Sanctions Programs

The next president should take a series of steps with respect to key sanctions regimes to send an early, clear signal of his or her policy intentions and to ensure that the programs continue to effectively serve critical U.S. interests.

IRAN

Given the nuclear security benefits of the JCPOA, the next president should make an early, clear statement that he or she intends to continue implementing the agreement as long as Iran continues to abide by its nuclear commitments. But the new president should also be prepared to quickly implement a forceful sanctions response to any Iranian provocation, whether a violation of the nuclear agreement, a ballistic missile test, or a significant escalation in Iranian support for Hezbollah or other terrorist groups. The president should make clear that such sanctions would not be simply symbolic in nature but would impose meaningful economic consequences on key elements of the Iranian government and the Iranian economy, such as large enterprises connected to, but not necessarily majority-owned by, the IRGC or other illicit actors in Iran.

Over the longer term, the next president should make clear to the Iranians the steps they must take to receive any further sanctions relief, such as the banking transparency and due diligence activities necessary for Iran to be permanently removed from the FATF “countermeasures list.” These steps would make clear to both Iran and U.S. allies that the United States is not a barrier to Iranian economic growth, but rather that Iran can and must

improve its counterterror-finance and anti-money-laundering controls if it wants to fully reintegrate with the global financial community. The president should also review the U.S. embargo to determine if any adjustments would serve U.S. policy interests, for example by enabling greater U.S. contacts with civil society, NGOs, and entrepreneurs in Iran.

RUSSIA

Shortly after Election Day, the president-elect should publicly call on the EU to renew Russia sanctions for at least an additional six months to ensure U.S.-EU unity while the new administration reviews its overall Russia policy. Over the longer term, the next U.S. president will need to review the linkage of U.S. and EU sanctions to the Minsk peace agreement to ensure that the sanctions remain dynamic in serving U.S. interests and do not simply become a frozen response to a frozen conflict.

THE ISLAMIC STATE TERRORIST GROUP

The next president will need to maintain the current multinational campaign to impose sanctions on the Islamic State, while recognizing that although economic sanctions can expose and condemn IS facilitators and have some economic impact on the terrorist group, sanctions have limited ability to cut off the largest sources of IS revenue, which IS derives from territory it controls. The next administration will also need to ensure that it is ready to move quickly with sanctions in case IS begins to try to raise larger sums of money through more traditional sources of terrorism finance, such as fundraising from donors, as IS loses economically important territory in Syria and Iraq.

CUBA

The next U.S. president should work with Congress to repeal the U.S. embargo and replace it with a targeted Cuban sanctions regime focused more narrowly on specific human rights abusers and destabilizers of political reforms within Cuba. This would allow a further normalization of U.S. relations with the island while still retaining some economic leverage to serve specific policy interests, such as settling U.S. claims and retaining some pressure to encourage reform in Cuba. The next administration should also intensify the Obama administration’s existing efforts to negotiate a settlement of U.S. claims with Cuba, given both the interests of the claimants and the need to settle claims as part of further economic normalization between the two countries. Given that Cubans may lack the financial resources for a full cash settlement of U.S. claims, and that a majority of

the value of U.S. claims are held by U.S. corporations, not individuals, the next U.S. president should encourage the development of a settlement mechanism that includes potential business and development rights in Cuba as well as cash payments. This type of creative approach would maximize potential value to the U.S. claimants.⁶¹

NORTH KOREA

Building on the sanctions contained in U.N. Security Council Resolution 2270 (2016) and new U.S. sanctions issued earlier this year, the next president should convene and launch a new multilateral initiative to facilitate enforcement of North Korea sanctions by countries around the globe. This should include expanded technical assistance to bolster the enforcement capabilities of nations currently lacking effective capacity in this area.

Addressing Challenges of Sanctions Implementation

The next president and his or her team should also initiate a series of steps to address the growing challenge of U.S. sanctions implementation to ensure a strong foundation for their use into the future. Key steps are listed below.

Establish a standing “G7+” mechanism to strengthen policy and regulatory sanctions cooperation with key allies: The next president should establish a standing international sanctions cooperation group comprising the most like-minded U.S. allies on sanctions issues: G7 members, the European External Action Service (EEAS), and Australia. This group would complement existing ad hoc groups that have developed cooperative policy with respect to individual sanctions regimes by promoting cross-border regulatory coherence in their implementation. This should include aligning lists of sanctioned individuals and companies, ensuring consistent definitions, and aligning regulatory guidance. It would also serve as a standing body that could quickly promote joint action on new sanctions regimes established in response to emerging crises. Furthermore, it would play a critical role in coordinating the rollback of sanctions as political circumstances merit, a task at least as complicated, if not more so, as the establishment of international coherence at the inception of a new sanctions program.

Establish a Sanctions and Financial Crime Private-Sector Advisory Board: To better understand and mitigate unintended consequences of sanctions, the next U.S. administration should direct the Treasury Department to establish a formal Sanctions and Financial Crime Advisory Board consisting of corporate representatives, NGOs, and independent scholars. It should charge

the board with advising the Treasury Department on technical issues; trends, including de-risking; and unexpected compliance challenges. The next president’s team should also use the board to pilot more effective information-sharing with the private sector by providing security clearances to at least a subset of board members; this would enable specific public-private information-sharing about suspected financiers of IS and other terrorist groups.

Increase resources: The next president must work with Congress to provide an appropriate increase in resources to U.S. sanctions professionals. A significant increase for the Treasury Department’s sanctions offices would enable the department to more effectively meet the expanded sanctions workload.

Strengthen the Treasury and State departments’ engagement with nonfinancial companies: Given the strong likelihood that the next president will continue to rely heavily on sanctions that affect multiple economic sectors, beyond the more traditional financial services focus area of sanctions practitioners, the Treasury and State departments should increase and formalize their engagement with a broad subset of nonfinancial companies, including smaller- to medium-sized companies. This would help the departments gain a more granular understanding of the business and compliance issues companies face with respect to U.S. sanctions and avoid pitfalls of regulating sectors in which the Treasury Department has a more limited level of exposure.

Support reforms to the U.N. sanctions process: Since the release in 2015 of a High Level Review on the subject,⁶² there is growing interest among some members of the U.N. Security Council in reforming U.N. sanctions processes to strengthen sanctions and to improve implementation by member states. The next president should support these efforts by directing his or her U.N. ambassador to encourage appropriate reforms.

Identify ways to streamline existing sanctions work to free up U.S. government resources for current sanctions challenges: In addition to seeking additional resources to support sanctions policy and implementation, the next administration should take steps to free up existing personnel and other resources to better address current challenges, such as bank de-risking and changes in technology. For example, the next administration should continue to expand general licenses for medical and other humanitarian business with sanctioned countries to reduce the need to review and approve specific licenses. Likewise, the Treasury Department could consolidate multiple sanctions programs related to human rights abuses in disparate countries into a single

new global sanctions program targeting serious human rights abuses and high-level corruption. Such a standing program would enable the next administration to target human rights abuses and corruption whenever a new crisis breaks out and would reduce the administrative burden needed to establish and maintain separate sanctions programs.

Establish a Strategic Sanctions Analysis and Planning Unit at the Treasury Department: Growing use of sanctions requires the next administration to invest more heavily in economic analysis and strategic planning for sanctions. The next president should direct his or her team to establish a new Strategic Sanctions Analysis and Planning Unit at the Treasury Department that could bring a rigorous economic approach to analyzing potential sanctions and provide cost-benefit analyses of sanctions programs. The unit would also be responsible for strategic planning for different sanctions scenarios. Finally, the next president should direct the unit, where practical, to periodically publish cost and impact analyses of sanctions to enable more informed public and congressional understanding of the costs and benefits of different U.S. sanctions programs.

Expand specific authorizations and safe harbors to mitigate adverse impacts of de-risking: Addressing the challenges presented by the bank de-risking trend will be a long-term endeavor. However, one near-term measure that the next administration can use to address some of the more immediate adverse consequences, such as the deleterious impacts on humanitarian trade and NGO activities, is to expand use of “white-listing.” This would involve the identification by the U.S. government of specific financial channels for permitted transactions that it has a clear policy interest in seeing continue. In 2014 and 2015, for example, the Obama administration white-listed a dedicated “humanitarian channel” allowing Iran to purchase food and medicine using frozen oil revenues. While this approach cannot be perfectly replicated in every circumstance, it could serve as a rough guide for countries where sanctions have impeded humanitarian trade.

Conclusion

The success of sanctions in advancing U.S. policy toward Iran, Russia, and other key national security priorities in recent years virtually ensures that this tool will continue to be an essential element of U.S. foreign policy in the years ahead. For the next president, the essential challenge will be continuing to promote dynamic sanctions targeting immediate challenges – Russia, Iran, IS, Cuba, and North Korea – while also strengthening the structural foundations of the U.S. and international sanctions apparatus. This will ensure that the sanctions policy tool remains a valuable, vital, and effective asset for both the next president and his or her successors. Moreover, given the rapid expansion in the use of this tool and perceived desirability in its use to address contemporary foreign policy problems, taking a bold approach to reform of sanctions policy and implementation at the beginning of the next administration can have an important and profound effect in shaping the next evolution of sanctions. This opportunity for game-changing reforms is unique and potentially very consequential to national security planning, and therefore merits significant focus for presidential transition planners in the months ahead.

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