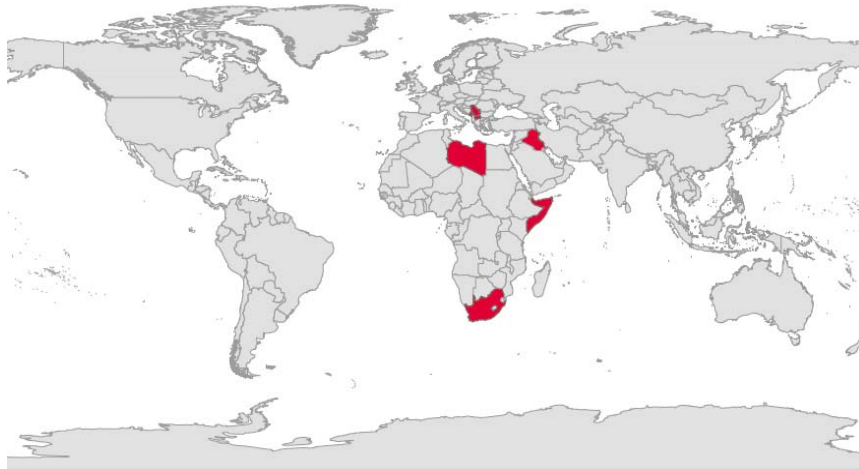


International Trade Sanctions and Business Impact

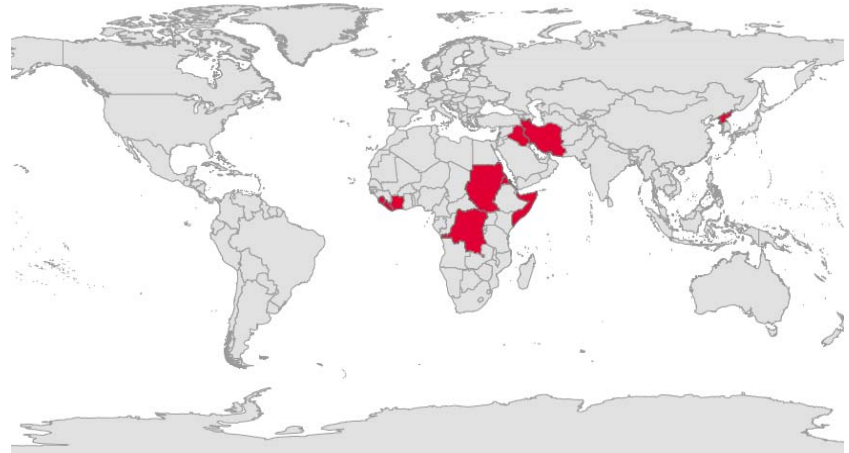
Rolf Tanner, Risk Management, Swiss Re
Legal and Liability Committee
14 September



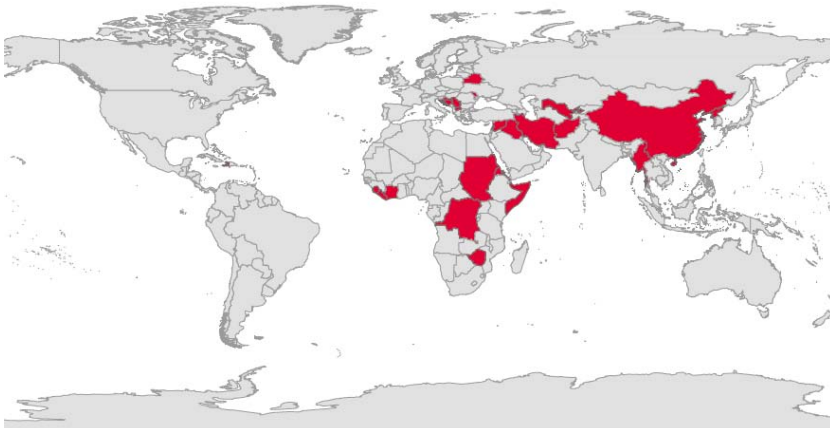
UN sanctions 1992



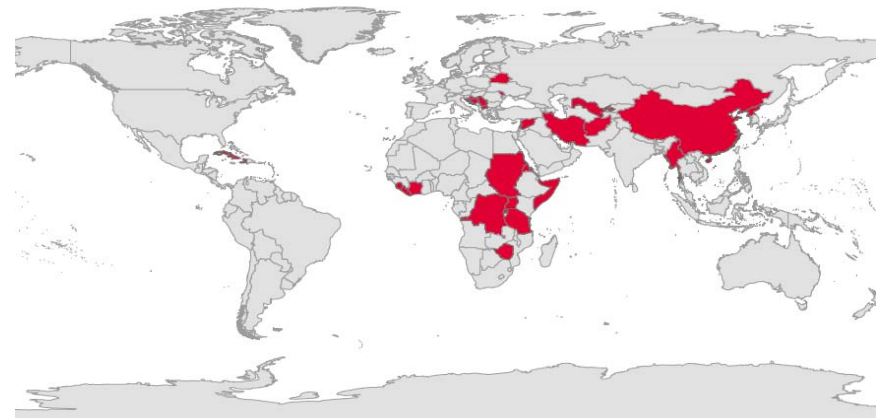
UN sanctions today



EU sanctions today



US sanctions today





CONTENTS



1. Background and history
2. Rationale and trends
3. Impact and consequences for business

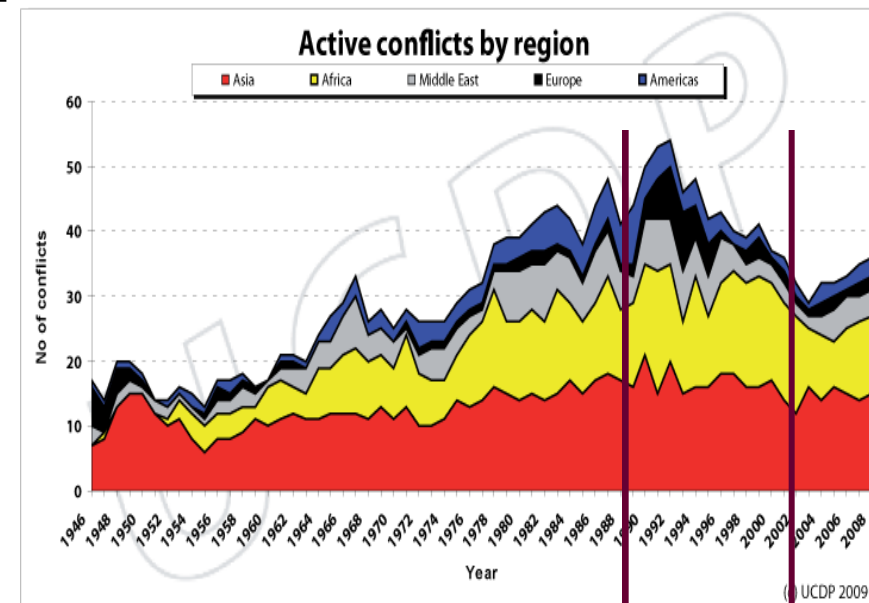
- International trade sanctions - no agreed definition
 - Sanctions, embargoes, boycotts, economic statecraft, economic diplomacy
 - "Sanctions are a policy instrument of governments, or international and supranational bodies, to impede or curtail trade and other commercial interactions with a targeted government, or group of governments, and possibly other entities and individuals, by means of a valid and binding legal act, with the purpose of making the target to comply with certain political, diplomatic, military or other goals."
- Sanctions as a tool of diplomatic coercion and economic warfare

- 1935/36: League of Nations sanctions against Italy during Italo-Abyssinian war
- 1945: UN Charter article 41: trade interruption in case of threat to peace
- Cold War: Western trade limitations (CoCom)
 - US embargo on Cuba since 1962
- Other sanctions: Arab boycott of Israel, UN sanctions against Rhodesia, South Africa, US sanctions against Iran
- The 1990s: the sanctions decade
 - Dismantling Cold War sanction architecture
 - Sanctions as primary policy tool of UN-centred "new international order"
 - Rapid increase of multilateral sanction regimes: Iraq & Yugoslavia as catalysts
- The 2000s: "Smart sanctions"/targeted sanctions
 - Humanitarian disaster of Iraq blanket sanctions trigger new approach
 - 9/11: Financial sanctions
- Unilateral US & EU sanctions



What makes sanctions so popular?

- Trade as enhanced wealth-generator increases attractiveness of sanctions for coercive policy goal achievement
- Sanctions as a war substitute in war-averse environment
 - sanctions as symbols
 - peers, allies, competitors
 - domestic and issue constituencies
- Do sanctions work?
 - No: have opposite effect -> 'rally around the flag'
 - Yes: 30 % of sanctions effective
- Sanctions as an expedient declaratory political weapon



End Cold War

Iraq War



- Sanctions to stay and proliferate as a policy tool
- Growing preference for targeted sanctions and further refinement of tools of targeted sanctions
 - Regime individuals (travel, overseas accounts, "benefits" -> dividends, claims payments)
 - Regime infrastructure (security forces, armed forces)
 - Critical assets in targeted countries (e.g., foreign exchange revenue sources of regime: mining and energy sectors, commercial agribusiness)
 - Technology imports (armaments, dual-use goods, IT and telecommunications equipment)

- Specific targeting of trade infrastructure
 - Targeted sanctions increasingly go after each single piece of the total value chain of international trade
 - Shipping, air transportation
 - Ancillary financial services to trade (banking, insurance, broking)
- Enforcement and prevention of circumvention
 - US and EU building their enforcement capabilities
 - Extraterritorial application of sanction legislation (US)
 - International coordination of sanction measures
- Shift of enforcement responsibility from governments to corporations/business: from detection to compliance

- Countries
 - The usual suspects (Iran, N Korea, Burma, Sudan)
 - Semi-suspects: Syria, Yemen
 - Pakistan, Afghanistan (after a Taliban takeover)
 - Venezuela
 - Mexico
 - Russia, China
- Topics
 - Nuclear, chemical, biological weapon proliferation
 - Terrorism, organised crime (narco, human trafficking)
 - Human rights/regime oppression
 - Gross environmental negligence



Impact for business

- Sanctions as operational boundary condition of business
- Direct costs
 - national economies / exports of sanction-imposing country: small to negligible
 - US 1995: less than 1 % of total merchandise exports
 - Arab League countries loss to Iraq sanctions 2000: 41 US\$ bn
 - individual corporations: can be substantial (loss of markets, clients, production facilities)
- Indirect costs
 - fines and out of court settlements
 - On Burma: Unocal on Burma (2005)
 - On Iran (and others): Barclays Bank US\$ 298m (2010), Credit Suisse US\$ 536m (2009), Lloyds TSB US\$ 350m (2009)
 - reputational losses in case of sanctions' violations
 - sophisticated compliance management systems and processes



Impact for business: insurance

- Insurance as cross-sector financial intermediary more exposed to potentially sanctionable activities and difficulties determining legality of business under sanction regimes
- Sanction rulings lump insurance together with banks and usually pay little attention to specifics of insurance business model and insurance products
- Targeted sanctions exacerbate compliance complexity

- Building internal capabilities and corporate adaptability
 - early warning, regulatory and lobby intervention capability
 - buttressing legal resources, sanction compliance clearly regulated
 - IT systems and management processes to capture critical business pieces
 - raising awareness about sanction violations among business units
- Changing markets practices and strengthening industry readiness
 - trade associations to focus on sanction preparedness in industry
 - proactive self-regulation on potential sanction targets to preempt more onerous legal and regulatory activism
 - enhancing information availability and transparency on risks (collect/requests information on items not collected up to now)

- Interacting with legislators and regulators
 - proactive education of legislators and regulators on insurance model
 - differences to banking
 - what is possible and what is not possible
 - early corporate and trade association intervention in legislating processes
 - part way with traditional reticence to 'meddle' in political processes
 - demand impact and effectiveness assessment analysis of potential sanctions
 - seek interaction not only with governments, but also with international organisations
 - UN as pacemaker for sanctions
 - Sanctions on UN level avoid market disadvantages