

U.S. Sanctions

Patrick Clawson

- The United States has had sanctions on Iran for most of the period since the 1979 Islamic revolution, with sanctions becoming broader since 1995 and expanded further since 2005.
- U.S. sanctions have been controversial on many scores, with vigorous debates about their impact and their negative side effects.
- U.S. sanctions have been maintained largely because the alternatives were less attractive.

Overview

Sanctions have been a regular feature of U.S. policy toward Iran for more than three decades. Washington first imposed sanctions on Iran over the 1979 U.S. Embassy seizure, and then lifted them after the 1981 hostage release. Embargos were gradually re-imposed after 1984, at first because of Iranian sponsorship of terrorism and then because of concern about Iran's ambitions to acquire weapons of mass destruction.

In the 1990s, the Clinton administration imposed much broader sanctions, which became a high-profile issue in U.S. relations with Europe and Russia. Since 2005, sanctions and related restrictions – such as on the sale of militarily-useful items – have been more vigorously enforced. The Bush administration launched complementary banking sanctions.

In the vigorous U.S. debates about sanctions, all parties agree in principle to target the regime rather than the Iranian people, to encourage Iran to engage and compromise, and to urge other governments to join a coordinated approach towards Iran. But analysts and policymakers do not agree about how to use unilateral U.S. sanctions to help achieve these goals.

In the 1990s, U.S. sanctions created deep friction with Europe. But Washington and its allies have moved closer on policy since 2007, when Tehran failed to cooperate with the international community. A broad international consensus in favor of sanctions developed largely because other approaches accomplished even less. At the same time, few analysts or policymakers are enthusiastic about sanctions in general or those on Iran in particular.

Five major rounds

Five administrations have imposed sanctions on Iran, all in response to Iranian actions.

The Carter administration: Washington had no sanctions against Iran after the 1979 Islamic revolution, until the takeover of the U.S. Embassy in Tehran nine months later. President Carter imposed an escalating series of sanctions, beginning with a ban on Iranian oil imports, followed by blocking all \$12 billion in Iranian government assets in the United States. In April 1980, the administration imposed an embargo on U.S. trade with Iran and on travel to Iran.

One provision of the January 20, 1981 Algiers Declaration under which Iran released the U.S. hostages was, “the United States will revoke all trade sanctions which were directed against Iran in the period November 4, 1979, to date.” The asset freeze was more complicated: Some \$5 billion was released to repay debts Iran owed to U.S. banks. Another \$1.1 billion went into an escrow account held by the Algerian central bank to settle claims by Americans against the Iranian government. The assets of the royal family remained frozen until Iran’s claim to them could be heard. And the rest of the frozen assets were returned to Iran. The agreement also set up the Iran-U.S. Claim Tribunal, based in The Hague, to hear claims by Americans against Iran and by Iran against Americans and the shah. The tribunal still exists, even though it has issued no judgments since 2003.

The Reagan administration: After the 1983 bombing of U.S. Marine peacekeepers in Lebanon, which produced the largest loss of U.S. military life in a single incident since World War II, the Reagan administration declared Iran a sponsor of international terrorism. In 1984, Washington imposed various restrictions, such as U.S. opposition to World Bank loans to Iran.

During the Iran-Iraq War, the administration also imposed increasing restrictions on exports to Iran of dual-use items that could be adapted for military use. The embargo was extensive, including even scuba equipment. In 1987, Congressional criticism of U.S. purchases of Iranian oil for the U.S. Strategic Petroleum Reserve was a factor in President Reagan’s order banning all U.S. imports from Iran.

The Clinton administration: U.S. sanctions on Iran expanded considerably during the Clinton administration. In March 1995, after Iran announced a \$1 billion contract with Conoco, a U.S. oil company, to develop selected oil and gas fields, Clinton banned all U.S. participation in Iranian petroleum development. Two months later, he broadened the sanctions to encompass a total trade and investment embargo on Iran.

In 1996, Congress overwhelmingly passed the Iran and Libya Sanctions Act, (ILSA) to press foreign companies not to invest in Iran's oil and gas industry, the main source of the regime’s income.

The Bush administration: Since 2005, the United States has issued a series of orders to freeze the assets of firms and individuals said to be involved in Iran's support

for terrorism, in Iran's role in threatening stability in Iraq, and in Iran's nuclear and missile programs. The president's authority in this last area was significantly expanded in 2006 by the Iran, North Korea and Syria Nonproliferation Act.

The United States has frozen the assets of numerous Iranian officials and Iranian firms, especially those affiliated with the Revolutionary Guards. Washington has also imposed sanctions on dozens of foreign entities, particularly Chinese and Russian companies, for helping Iran's nuclear and missile programs. The U.S. government formed a unit in the Justice Department to more vigorously prosecute individuals or companies charged with selling arms and weapons parts to Iran. More than 30 arrests were made between 2008 and 2010.

Obama administration: In June 2010, Congress overwhelmingly passed and President Obama signed the Comprehensive Iran Sanctions, Accountability, and Divestment Act (CISADA). It tightened U.S. sanctions in several areas and enacted numerous legal restrictions previously made under presidential executive orders. But CISADA significantly expanded sanctions by targeting the supply of refined petroleum products sent to Iran by non-U.S. firms. Iran imports about 30 percent of its refined gasoline because of the poor state of its own refineries.

The president has the power to waive nearly all CISADA provisions. But several major international oil firms announced a cutoff of refined products to Iran because of CISADA's provisions, combined with growing approval among European governments and some Gulf Arab governments to increase pressure on Iran. For example, BP refused to sell Iran Air fuel at European airports.

At congressional urging, the Security and Exchange Commission also requires firms to provide information about their activities in Iran. It ruled that such activities constitute a risk, about which investors should be aware.

State sanctions

In addition to sanctions imposed by the federal government, many states – by some counts, more than half – now restrict their pension funds from investing in firms active in the Iranian market or firms with ties to Iran's weapons programs, or human rights abuses. After the brutal suppression of protests following the contested 2009 presidential election, some states and cities debated whether to purchase goods from Western firms allegedly involved in assisting Iranian repression, such as internet censorship.

Sanctions impact

There has been strong disagreement about whether Iranians blame their government for causing economic problems, or whether they blame the West. Evaluating the impact of sanctions is complicated by disagreement over what sanctions

are meant to achieve. Different policymakers and analysts stress different objectives. The many objectives they cite include:

- Taking a moral stance against human rights abuses in Iran
- Deterring other countries from taking the same nuclear route as Tehran
- Signaling international disapproval
- Delaying and disrupting Tehran's nuclear and missile programs
- Helping the democratic opposition
- Crippling the country, or at least the government
- Using sanctions as leverage to open fruitful negotiations on the nuclear issue or perhaps on a broader set of issues
- Persuading Iran to halt its uranium enrichment efforts.

Evaluating what sanctions accomplish depends on whether the benchmark is progress on the more modest objectives, or full achievement of the more far-reaching goals.

Imposing sanctions has also carried costs. In the 1990s, U.S. sanctions created serious friction with Europe, which objected to both the policy on Iran and U.S. punitive measures on European companies. A crisis over ILSA was averted only when Washington agreed to waive ILSA on European investments in Iran; in return, Europe restrained export of dual-use items to Iran.

A new consensus

After years of failed diplomatic efforts to negotiate with Iran, European officials concluded that sanctions were necessary to get Iran to comply with its international obligations, including the Nuclear Non Proliferation Treaty. Since 2007, Europe has been as involved as the United States in diplomatic efforts to secure U.N. sanctions on dual-use items useful for Iran's nuclear and missile programs.

By late 2010, U.S. sanctions on Iran were no longer an outlier; other major Western industrial countries imposed similar sanctions. As countries acted, major multinational firms decided that Iran's market was not worth the trouble. U.S. firms such as Caterpillar and GE decided that their foreign affiliates – which were not covered by U.S. sanctions – would pull out of Iran. So did foreign firms such as Siemens and Toyota.

Few policymakers in either the United States or Europe are actually enthusiastic about sanctions, especially after the experience with the crippling sanctions on Iraq between 1990 and 2003. Sanctions have gained momentum largely because the tougher alternative of using force is so unpalatable. Yet, sanctions have had some successes. One factor in the 1981 release of 52 U.S. Embassy hostages was Iran's desire to end the assets freeze and trade embargo so it could prosecute the war with Iraq. More recently, the International Atomic Energy Agency reported that Iran's nuclear program has been held back by lack of access to foreign inputs and technology.

Factoids

- Sanctions on Iran allow much more people-to-people exchange than embargos on Cuba. U.S. restrictions on exports and imports do not cover travel (or travel-related payments), donations of articles intended to relieve human suffering (such as food, clothing and medicine), gifts valued at \$100 or less, or "informational materials" defined broadly to include films, posters, photographs, CDs and artwork.
- Some U.S.-Iran trade continues, especially in food. Iran is a large wheat importer; some years, it buys as much as \$200 million in U.S. wheat. From 1998 to 2010, Americans could legally buy Iranian handicrafts and foods. U.S. purchases never reached \$50 million in a year; the main item was rugs. Some Iranian products faced other restrictions: Caviar was limited by the international agreement for conserving the endangered Caspian sturgeon, and pistachios faced a stiff countervailing duty imposed after California pistachio growers complained about dumping.
- Some trade is surprising. U.S. airlines pay several million dollars a year in fees to the Iranian government for air traffic control services while overflying Iran. Taking advantage of the peculiar U.S. classification of tobacco as a food for trade purposes, Iran bought large amounts of American cigarettes one year.
- While Iran has often complained that the United States does not allow Iran Air to buy spare parts for its aging Boeings, in fact, the Bush administration issued a license for such exports but Boeing has been unable to make a sale.
- In 1992, before the Clinton administration toughened sanctions, the United States was Iran's sixth largest source of imports; U.S. exports were \$748 million.

Useful resources

The Treasury Department's Office of Foreign Assets Control (OFAC) website provides much information about the rules it administers.

Periodic reports from the Congressional Research Service explore the history of U.S. sanctions and proposals for additional actions.

The future

- U.S. sanctions on Iran have drawn harsh criticism over the years, but sanctions have intensified under five presidents, indicating a broad bipartisan consensus that, for all their faults, sanctions are an important part of the U.S. policy mix towards Iran.

- U.S. sanctions were widely criticized in the 1990s for being unilateral, yet U.S. action was eventually a spur to a broad international consensus, including a series of U.N. sanctions since 2007. By 2010, European governments that had long criticized U.S. sanctions policy had adopted much the same approach, imposing restrictions on wide swatches of the Iranian economy.
- There is no agreement among U.S. officials on the specific objectives of sanctions on Iran, which makes it hard to judge how successful they have been. Sanctions have facilitated some goals. But they have not had any success in persuading Iran to fully cooperate with the International Atomic Energy Agency on its controversial nuclear program.

Patrick Clawson is deputy director of research at the Washington Institute of Near East Policy, where he directs the Iran Security Initiative. He is the co-author of "Eternal Iran: Continuity and Chaos."