Iran Adapts to Sanctions in the Absence of New Measures

by Patrick Clawson **(/experts/patrick-clawson)**

Jan 27, 2015

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Articles & Testimony

When it comes to sanctions, continuously adopting new measures is the best way to convince Iran's leaders that they must resolve the nuclear impasse.

*The following is an excerpt from Dr. Clawson's prepared remarks; download the PDF to read the full testimony, or watch video of the hearing **(http://www.banking.senate.gov/public/index.cfm?FuseAction=Hearings.Hearing&Hearing_ID=3517e438-a846-4229-941c-4d2f05d3568b)**.*

Sanctions are more likely to have impact, both on Iran's economy and more importantly on its political leadership, if they continuously get tougher. We need to convince Iran's leaders that the longer the nuclear impasse persists, the worse the pain will be.

Like many of us, Iran's leaders are naturally optimistic. Frequently, they have thought that the United States was "sanctioned out," that there were no new measures that Washington could apply on Tehran. The early Obama administration well understood how constant tightening of sanctions sent a clear message that the nuclear impasse would get costlier and costlier. Their approach was to use three simultaneous avenues for tightening sanctions.

First and foremost was tougher enforcement of the measures nominally in place. The Obama administration continued and intensified the Bush-era initiatives to vigorously pursue financial institutions that were ignoring U.S. sanctions regulations. The resulting billions of dollars in fines collected from banks has had a dramatic impact on the attitudes in the financial community, which have decided that transactions with Iran are not worth the risk.

In addition, the Obama team pushed hard for allies to step up their sanctions on Iran, helped by the outrageous rhetoric from the Ahmadinejad administration. The careful incorporation into the 2010 UN Security Council Resolution 1929, building on the 2008 Resolution 1803, of language about "exercising vigilance" on a range of Iranian activities provided a way to present the complementary measures by allies, especially the European Union (EU), as being within the framework of Security Council actions, something important for many of those allies. The quiet support from many other governments to U.S. restrictions on financial transactions strongly influenced financial institutions to fall in line with those restrictions rather than to complain about U.S. perceived extraterritorial action.

And new sanctions were adopted that built on and extended existing sanctions. Repeatedly, the Administration complained about new sanctions measures being considered by Congress only to proclaim, months after similar measures were enacted into law, that such steps had been important contributions to Iran's leaders' reconsideration of their previous stance.

We can debate the relative contribution of each of these approaches. In any case, the end result was to shock Iran's leaders at our ability to turn up the heat, as well as to feed popular discontent with a hardline nuclear stance perceived correctly as standing in the way of Iran taking advantage of the many opportunities that greater integration into the world economy offers it.

Our challenge now is to find a new mix of policies that will once again shock the Iranian leaders. A powerful assist to this end has come from an unexpected direction, namely, the ample supply conditions in world oil markets. To a person, Iranian leaders are convinced that the recent oil price decline has been a deliberate Saudi-American plot to harm the Islamic Republic. Saudi Oil Minister Naimi's several interviews proclaiming that oil prices may have to go much lower and stay there for a prolonged period, irrespective of the impact on Iran among others, is read as proof of the political motivations behind the price decline. Khamenei's extended January 24 remarks on how the oil price decline was an American-sponsored plot against the Islamic Republic drew his usual policy recommendation: "blows will be met with blows."

The historical analogy that resonates with the current generation of Iranian leaders is the 1986 price collapse (when the Dubai spot crude price fell from $27.53 per barrel in 1985 to $13.10 in 1986 and stayed at about that level for years). The resulting loss of revenue was a central element in Iran's decision that it could not afford to pursue the war with Iraq, which had to be abandoned with little show for 150,000 Iranian dead. Iranian leaders have always thought that the Saudi decision to step up oil production from 3.6 million barrels per day in 1985 to 5.2 million in 1986, which was the main reason for the price collapse, was aimed at the Islamic Republic, as part of the multifaceted Saudi effort to stave off Iran's battlefield successes against Iraq.

It is no secret that the Saudi leadership wants to see Iran pressed harder, both to resolve the nuclear impasse and to pull back from Iran's active role supporting Shia fighters in Syria, Iraq, and Yemen (and, the Saudis would add, Bahrain). That fact and their reading of the 1980s history only contributes to the Iranian leaders' conviction that the Saudis are doing what they would do were they in the Saudis' shoes, namely, driving oil prices lower to press Iran. We may doubt that this is an accurate reading, but both in public and in discussion with Tehran, the U.S. government should hint that low oil prices are part of Washington's plan. Since people in the Middle East are often ready to see the United States as all-powerful, we should find ways to make that work to our advantage. If we can get credit for the sun rising in the east, take it.

Just as the years of high oil income were a good time to shock Iran by showing the high price it paid for not being able to export much of its oil, now is a good time to shock Iran by showing that since the world economy does not need their oil, we are prepared to take tougher measures against Iran unless the nuclear impasse is resolved. The impact of the last rounds of sanctions has faded; a new round is needed to show that the United States is not "sanctioned out." My intent today is not to address what should be the character of that new round of sanctions; my role instead is to point out why it is needed...

Patrick Clawson is director of research at The Washington Institute and a former senior economist at the International Monetary Fund and World Bank. ❖

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