



Weighing Benefits and Costs of International Sanctions Against Iran



This paper offers a fact-based analysis that we hope will provide Americans sufficient understanding to weigh the balance between the benefits and costs of using international sanctions against Iran—and the wisdom to find the right time to negotiate.

From the signers of this document

This document is published by The Iran Project; the content is the collective view of the signers.

Dear Fellow Citizens,

As a group of interested former officials of the United States Government and professionals in the field of U.S. national security, we support the publication of the attached report, “Weighing Benefits and Costs of International Sanctions Against Iran.” We applaud the drafters of this paper and their goal of contributing an objective, nonpartisan analysis to a complex and important policy discussion. While some of us made contributions to the paper, we do not necessarily agree with every word in this properly detailed and balanced report.

We associate ourselves with this paper in the belief that it will contribute to informed public debate on a critical challenge to American interests in the world. We also believe that it is consistent with President Obama’s policy of maintaining pressure on Iran through sanctions while holding open the possibility of reaching a political solution, and that it does not rule out the use of military force as a last resort to constrain Iran from building a nuclear weapon.

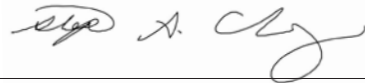
The paper does not advocate for or against sanctions; nor does it make specific policy recommendations. It seeks fact-based objectivity whenever possible in describing some of the implications for American interests of the international sanctions regime against Iran. In addition, it offers some general observations about the challenge of making sanctions work—that is, getting the greatest possible advantage from the sanctions imposed against Iran, while minimizing potential negative impacts.

We commend this report to the American public as a basis for open and informed discussion of this matter of crucial importance to America’s national security. Abraham Lincoln once said, “I am a firm believer in the people. If given the truth they can be depended on to meet any national crisis. The great point is to bring them the real facts.” This paper seeks to “bring facts” to the debate, in hopes of facilitating a productive conversation about sanctions as part of an integrated U.S. strategy to achieve a negotiated settlement with Iran on its nuclear program.

Signed and Endorsed by:



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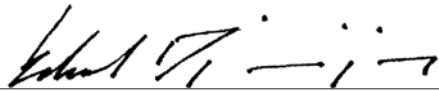
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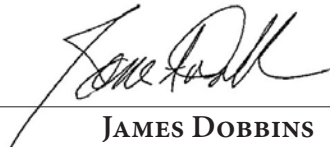
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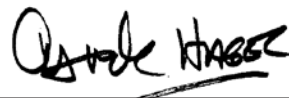
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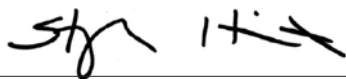
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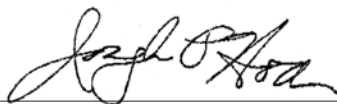
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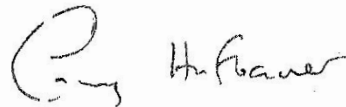
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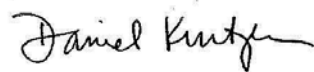
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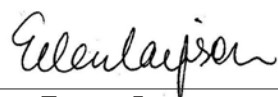
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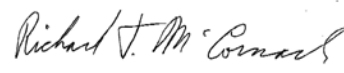
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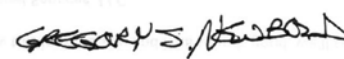


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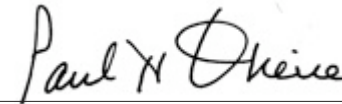
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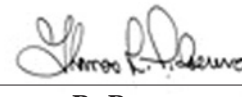
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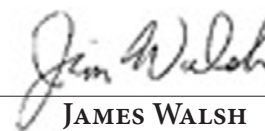
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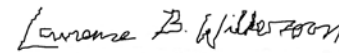
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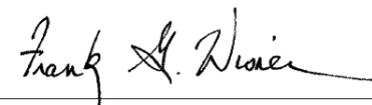
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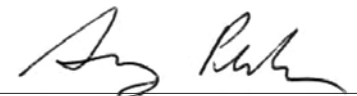
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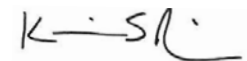
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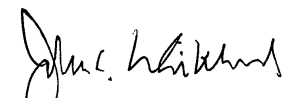
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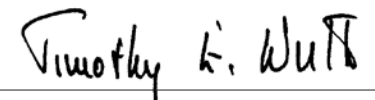
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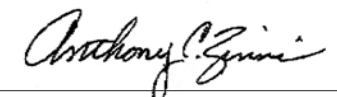
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“Nine-tenths of wisdom is being wise
in time.”

Theodore Roosevelt

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“Peace is not absence of conflict, it is the ability to handle conflict by peaceful means.”

Ronald Reagan

EXECUTIVE SUMMARY

Weighing Benefits and Costs of International Sanctions Against Iran

A Paper from The Iran Project

INTRODUCTION

The United States and the international community have used sanctions for nearly three decades to pressure Iran to adopt different foreign and domestic policies.

The sanctions regime now in place, including sanctions imposed by the United Nations Security Council, demonstrates the ability of the United States to work effectively with allies and other concerned nations to build a common strategy on Iran. At its core, the sanctions regime reflects the commitment of many key nations to preventing Iran from becoming a nuclear-armed state.

Sanctions against Iran have been perceived in diverse ways, by U.S. policymakers and legislators: As a means for getting Iran to the negotiating table; as bargaining chips in negotiations over Iran's nuclear program; as a tactic for slowing the development of Iran's nuclear program; as a counterterrorism measure designed to constrain Iran's support of organizations such as Hezbollah and Hamas; as a way of forcing Iran to change domestic policies that violate the human rights of its citizens; even (in the minds of some) as a tool for bringing about regime change in Iran.

Whatever the purpose or combination of purposes associated with a particular set of sanctions, the benefits of the sanctions have often been taken as given, since the imposition of sanctions is widely considered to be the most powerful alternative to military action. Precisely because sanctions offer the possibility of achieving important objectives without the human and financial costs of armed conflict, the costs of sanctions themselves are not routinely addressed in the public or policymaking debate.

THE PURPOSE OF THIS PAPER

The authors and signers of this paper are senior experts from the national security and foreign policy communities who believe that **a careful assessment of the costs as well as the benefits of sanctions will enhance the quality of debate about the sanctions regime and the role of sanctions in overall U.S. policy toward Iran.**

This report is not an advocacy document, for or against sanctions. It does not offer policy recommendations. Like our recent report, *“Weighing Benefits and Costs of Military Action Against Iran,”* this paper is balanced and fact-based. But while the paper on military action sought to evaluate the benefits and costs of an action not yet taken, this paper on sanctions focuses on a course of action to which the United States is already committed. **Given the United States’ international leadership on sanctions as a strategy for pressuring Iran, this paper not only provides our assessment of the benefits and costs of the sanctions regime, but also offers some reflections that might help the United States and its allies to get maximum advantage from sanctions against Iran, while minimizing the potential for negative consequences.**

SHARED UNDERSTANDINGS

The authors of this paper brought to their task some shared understandings that provided our diverse group with a common perspective.

- We recognize that Iran’s actions—particularly with regard to its nuclear program—pose complex and dangerous challenges to U.S. interests and security, as well as to the security of Israel and possibly to stability in the Middle East. These challenges are serious and demand a response. That is the context within which we examine the benefits and costs of sanctions.
- This paper focuses on the sanctions regime and does not consider complementary elements of U.S. policy toward Iran, such as the threat of military action or the pursuit of a negotiated settlement. In choosing to focus on the sanctions element of U.S. policy, we have foregone opportunities to weigh the benefits and costs of sanctions as part of a larger strategy for dealing with Iran. In a subsequent paper, *The Iran Project* will focus on a negotiating strategy for resolving tensions with Iran.
- While there is a large body of literature on the pros and cons of sanctions as a policy tool, we make only occasional references to that broader debate. Nor do we attempt to assess the role that sanctions have played in recent U.S. and international efforts to affect the policies of states other than Iran. Our goal is to provide facts

and analyses that inform the debate on sanctions against Iran, particularly with regard to achieving our objectives on Iran’s nuclear program.

- We have based our analysis and judgments on careful review of the excellent research available on the topic of U.S. and U.S.-led international sanctions against Iran. We have tried to give full credit to the work of others in the endnotes to this paper. Our own professional judgments, when offered, are clearly identified as such.
- We are mindful of the challenges of evaluating what constitutes a benefit and a cost of the sanctions against Iran. The U.S.-led international sanctions regime is still evolving and its longer-range effects are not fully apparent. Nonetheless, we believe that insights from the past thirty years of experience with sanctions against Iran can serve as a reasonable basis for thinking through future outcomes.

HIGHLIGHTS FROM THE PAPER

The assessments highlighted below are treated in greater detail and with ample source citations in the paper.

1. The complexity of the sanctions regime.

The sanctions regime has evolved over almost three decades and reflects several unique stages in the troubled history of U.S.–Iran relations and international concerns about Iran. Many decision makers in Washington may not recall the history of the sanctions or fully grasp their complexity. In summary form at the start of our paper, and in a detailed *Primer on Sanctions Against Iran, Including Potential Future Sanctions and Provisions for Lifting the Sanctions*, we attempt to disaggregate these multiple layers of sanctions, in order to provide a clearer context within which to weigh sanctions’ benefits and costs.

Sanctions against Iran have been imposed through Executive Orders and legislation in the United States; resolutions passed by the United Nations Security Council; and actions taken by foreign governments. Different sets of sanctions rely on different criteria, guidelines, and implementation vehicles. They also aim at a variety of outcomes, including achieving a negotiated agreement on Iran’s nuclear program; restricting Iran’s ability to acquire materials for that program; slowing the development of Iran’s nuclear program; ensuring that Iran discontinues funding of Hezbollah and Hamas; requiring Iran to respect the human rights of its citizens; limiting Iran’s ability to exert influence in the region; and, for some in Washington, producing a change in Iran’s government (regime change or a fundamental change in the Iranian government’s policy and orientation), although this latter objective has been disavowed by the U.S. government. The sanctions regime also includes a complicated mix of criteria and provisions for lifting or easing the sanctions currently in place, should that be warranted by Iranian actions.

2. Making sanctions work.

Reflecting on three decades of experience with sanctions against Iran, as well as on the nature of sanctions as a foreign policy tool, we offer several general observations about how the United States and its international allies might get the greatest possible advantage from the sanctions imposed against Iran, while minimizing potential negative impacts. All of these observations, in one way or another, make the point that **the effectiveness of sanctions against Iran will depend not only on the sanctions themselves, but also on the negotiating strategy associated with them.**

- **The objectives of sanctions:** The multiple objectives embedded in the sanctions regime will complicate efforts to determine whether and/or when sanctions have achieved their desired results. Different parties, with different agendas, can make conflicting claims about the effectiveness of sanctions. **We believe the United States might be better able to gauge and maximize the effectiveness of recent sanctions if the objectives that are most relevant and pressing today could be disentangled from other objectives that have been linked with sanctions.** Or, to put this differently: Sanctions alone are not a policy. If resolving the nuclear issue is now the most important objective of the sanctions regime, then sanctions strategies—and the negotiating strategy associated with sanctions—should be assessed in terms of their effectiveness or likely effectiveness in achieving that objective.
- **Assumptions about influencing the decisions of Iran's leaders:** The diverse sanctions now in effect against Iran share an underlying assumption about the ability of sanctions to produce changes in the policies of Iranian leadership by escalating the economic pressure on Iran's economy, institutions, private business community, and people. But while the pain of recent sanctions may well help bring Iran to the negotiating table, it is not clear that these sanctions alone will result in agreements or changes in Iranian policies, much less changes in Iran's leadership. The Iranian government is engaged in its own ongoing calculation of costs and benefits, and may conclude that its interests are best served by digging in—especially if the regime believes that sanctions will remain in place no matter what Tehran does. If Iran were to signal its willingness to modify its nuclear program and to cooperate in verifying those modifications, Iranian negotiators would expect the United States and its allies, in turn, to offer a plan for easing some of the sanctions. Absent a calibrated, positive response from the West, Iran's leaders would have little incentive to move forward with negotiations.

Sanctioning states are faced with the question of whether increasing sanctions or maintaining them indefinitely will achieve the desired objectives—or whether there is instead a point at which the addition of more sanctions or the inflexible application of existing sanctions might backfire or become counterproductive. Sanctioning states might get the maximum advantage from sanctions by recognizing when an optimal degree of pressure has been reached, and beginning to convert a purely confrontational strategy into a strategy that combines pressure with a calibrated series of positive signals, thereby creating momentum toward negotiations.

- **Easing or lifting some sanctions:** The complex mix of processes and criteria required to lift the sanctions that are now in place may make it challenging for an American administration to chart a clear and calibrated response to progressive changes in Iran's policies and actions. While the American President generally has a high degree of discretion to reduce sanctions on any country, including Iran, the fact that so many of the U.S. sanctions against Iran have been enacted into law limits the President's discretion. In some cases, easing sanctions would require coordination with other nations and the UN Security Council.

Political realities and the diverse objectives reflected in the current sanctions regime also are likely to complicate the progressive easing of economic pressure on Iran. Even if Iran were willing to reach an agreement on the nuclear issues, many sanctions that were imposed for other reasons would likely remain in place. Some members of the United States Congress are committed to maintaining sanctions indefinitely as one means, among others, of hastening the demise of the Iranian regime, and it could be difficult politically for the American president to begin lifting sanctions, even though doing so may be within his legal authority in some cases. One extreme reading of the current sanctions regime is that Iran would need convincingly to reorient its entire foreign policy and many of its domestic policies—and perhaps change its leadership—in order to achieve a complete lifting of U.S. sanctions.

So far, neither the United States nor the UN Security Council has stipulated the precise criteria that Iran must meet to trigger the lifting of sanctions, or the sanctions that would be lifted in exchange for Iran's actions. There is no action-for-action plan that all parties understand. Our analysis suggests that the process of unwinding some of the sanctions will be difficult but not impossible. **While we make no specific recommendations in this paper about a process or sequence for easing sanctions in response to Iranian cooperation, we do underline the value and importance of the United States having a plan for such an eventuality.**

3. Benefits and potential benefits of sanctions.

Targeted (or “smart”) sanctions have reduced Iran’s ability to acquire material that could be used for a nuclear weapons program and its ability to modernize its armed forces. Recently imposed comprehensive (or “crippling”) sanctions have sent a clear message to Iran’s leadership about the economic cost of continuing to ignore the demands of the United States, the UN Security Council, and others. Sanctions have worked to constrain some Iranian activities as well as to damage Iran’s economy and further isolate Iran from the international community. The test now is whether the sanctions will ultimately work to change Iranian policies and behavior.

Among the benefits and potential benefits of sanctions are the following:

- **A basis for coalition building.** Sanctions have proved to be a way for many nations to demonstrate a unified purpose and the seriousness of their concerns about Iran’s nuclear intentions and support for violent non-state actors such as Hezbollah and Hamas, without going to war. The severity and comprehensiveness of the sanctions regime has also reassured friendly states in the region that the United States understands their security needs.
- **Slowing the expansion of Iran’s nuclear program.** U.S. government officials and other experts have said that targeted sanctions are slowing the expansion of Iran’s nuclear program, including the production of centrifuges. Some have even argued that without sanctions and other pressures, Iran would already have a nuclear weapon. We disagree with this judgment, however, since U.S. intelligence officials have stated with a high degree of confidence that the decision to build a nuclear weapon has not yet been taken by Iran’s Supreme Leader. Sanctions are thought to have been largely effective in reducing the importation of dual-purpose materials that would enable Iran to move forward with any plans for the development of missile-delivery systems and other aspects of a nuclear weapons capability. According to recent International Atomic Energy Agency (IAEA) reports, however, Iran’s capacity to enrich uranium continues to expand, and Iran’s stockpile of low-enriched uranium (enriched to the level of 3.5–5%) has continued to grow. This raises doubts about whether sanctions have had a significant effect on an aspect of Iran’s nuclear program—uranium enrichment—that is central to the creation of a nuclear weapon.
- **Weakening the Iranian economy.** Sanctions are cutting into Iran’s oil revenues and disrupting its trade with neighboring states. Iran’s economy appears to have been significantly weakened (corruption and mismanagement are endemic problems as well). Inflation and unemployment are high; the inability to purchase

essential parts is hurting some manufacturing sectors. This year, Iran cut imports of non-essential goods. While Iran’s economy appears to be facing severe problems today, we are cautious about extrapolating longer-term trends from discrete statistics. It is difficult to estimate the extent of the impact of sanctions over time or the ability of Iran to adapt to the new environment. Sanctions also have driven a substantial amount of commerce underground and into the black market, which further complicates efforts to gauge economic activity within and across Iran’s borders.

- **Regional military balance increasingly unfavorable to Iran.** The ban on heavy weapons sales has limited Iran’s ability to modernize its armed forces at a time when Iran’s neighbors have been getting U.S. assistance in upgrading their militaries. While Iran is now able to manufacture most basic military hardware domestically, sanctions are preventing Iran from purchasing or developing hi-tech military equipment. We assume, however, that in the event of conflict, Iran’s retaliatory and even its offensive military strategies would rely primarily on asymmetrical warfare rather than conventional forces.
- **Elite distress and public unhappiness over economic conditions.** Both elites and the general public in Iran are feeling the effects of the economic deterioration produced by the sanctions regime. President Ahmadinejad has been criticized within elite circles for his mismanagement of the economy, but it is difficult to judge whether debate has also been stimulated over Iran’s foreign policy, including whether Iran should make some concessions on its nuclear program in order to achieve sanctions relief. Certainly, the threat of stiffer sanctions does not appear to have stopped Iran from taking steps in its nuclear program that alarm the international community. (The Supreme Leader, who would make the final decision about whether Iran should pursue a nuclear weapon, is thought to believe that the nuclear issue is just a pretext for regime change, and that sanctions will remain in place no matter what Tehran does.). Public discontent with economic conditions and domestic policies is growing. But here, too, it is difficult to judge whether public unhappiness will lead to pressure for a change in foreign policy or national leadership—or to public fearfulness, passivity, and accommodation under a more harshly repressive state.
- **Enhanced sanctions might change Iran’s nuclear negotiating strategy.** As international sanctions have increased in severity and comprehensiveness, the United States has seen some indications of a greater willingness on the part of Iranian leadership to negotiate seriously. So far, though, little actual progress has been made toward achieving agreement on any of the outstanding issues. It seems doubtful to us that the current severe sanctions regime will significantly affect the decision making of Iran’s leaders—any more than past sanctions did—barring some

willingness on the part of sanctioning countries to combine continued pressure with positive signals and decisions on matters of great interest to Iran.

4. Costs and potential costs of sanctions.

The decision to make international sanctions a centerpiece of its Iran strategy has had some geopolitical costs for the United States, and fault lines are developing in the alliance, potentially giving Iran some options for offsetting the impacts of the sanctions. Sanctions designed to weaken Iran's economy and put pressure on Iranian leadership are having some effect, but they also are having some unintended negative consequences. And while the tightening sanctions seem to be having a modest effect on Iran's nuclear negotiating strategy, they also risk undermining other long-term U.S. policy objectives vis-à-vis Iran and for regional peace and stability.

Among the costs and potential costs of sanctions are the following:

- **Disputes with allies and other countries.** Differences with Russia, China, and other countries—including India, Turkey, and South Korea—have widened as more comprehensive sanctions take effect that aim to pressure Iran's leaders by harming the civilian economy. Sanctions-related tensions among the United States and Russia and China have complicated U.S. efforts to achieve Security Council unity on international action in Libya and Syria.
- **Increased corruption and control of the economy by unaccountable factions.** Iranians who depend on cash-strapped government agencies for public services and social-welfare benefits may be forced to turn to influential family and factional connections who are in positions of power. This is likely to enhance the influence of conservative and repressive factions (such as the Iranian Revolutionary Guard Corps, or IRGC) that have control over financial resources. IRGC-controlled firms have acquired large stakes in key economic sectors, including telecommunications, banking, transportation, and energy—where sanctions have forced global companies to abandon some projects to IRGC-linked companies. The longer sanctions persist, the more economic transactions will be controlled by the Iranian leadership through black-market channels.
- **Empowering anti-reform voices and disempowering civil society.** Comprehensive international sanctions against Iran may be enhancing the political power of repressive leaders and ultra-conservative factions by enabling them to portray sanctions as U.S.-led aggression, even “economic warfare,” and by causing the regime to repress opposition elements more harshly than ever. To the extent that ultra-conservatives increase their control over the Iranian system, room for political dissent and civil society will continue to shrink.

- **Long-term alienation between the United States and Iran.** As comprehensive sanctions take their toll on the quality of life in Iran, the United States risks losing the admiration of many of Iran's people—including the younger generation. Resentment over the hardships caused by sanctions could reduce the prospects for improving or normalizing U.S. and Iranian relations over time, even if Iranian leadership were to change.
- **Increased potential for conflict.** The international sanctions, combined with threats from Israel and a U.S. military buildup in the Persian Gulf, may have heightened Iran's readiness for asymmetrical retaliation against U.S. and allied interests. In addition, according to the U.S. Defense Department, Iran has responded to the limits on its arms purchases by expanding its own arms industry—developing ballistic and cruise missiles, building more small boats to use in the Persian Gulf, and acquiring additional ships and submarines. The sanctions, and especially the partial oil embargo against Iran, have also caused Iran's leaders to threaten action to close the strategic Strait of Hormuz.
- **Potential humanitarian effects.** Sanctions have the potential to produce human suffering that could be morally repugnant and that could undermine international support for sanctions, hurt the United States' global image and credibility, and contribute to further alienation of the Iranian public. The comprehensive sanctions introduced in 2010 have lowered the standard of living and wellbeing of Iran's population, including by reducing the availability of food, medicine, and other basic human requirements. Some hardships are an inevitable result of sanctions cutting deeply into the economy for long periods of time. In addition, while the United States Treasury Department permits the export of humanitarian goods to Iran, U.S. firms are not always willing to undertake the licensing process that is required, and foreign firms and banks may hold back from any transactions with Iran for fear of U.S. penalties and volatility in the value of Iran's currency. Inadvertently, a widely accepted principle of sanctions that the availability of food and medicines should not be affected is at risk of being violated. Meanwhile, as the number and complexity of sanctions on Iran have increased, humanitarian relief groups complain that it is increasingly difficult for U.S. citizens to donate to relief efforts in Iran (for example, after the August 2012 earthquakes in Northern Iran).
- **Detrimental economic effects on the United States, its European allies, and the region.** The sanctions now in place are creating new international patterns of trade that are potentially detrimental to the U.S., European, and regional economies. The effects of the most crippling sanctions are not yet visible in the available economic data, and a combination of factors—including exemptions of

various kinds, the expansion of black market trading, and non-compliance by some parties—makes it difficult to calculate precisely the economic impacts of sanctions on the United States, the European Union (EU) countries, and countries in the Middle East. But one obvious “opportunity cost” of sanctions is that they exclude U.S. and allied firms from potentially lucrative business opportunities in Iran. Goods from China and India, two of the countries that have sought to avoid sanctions on Iranian banks by bartering for oil, are taking hold in the Iranian market, and it may prove difficult to realign trade patterns to include the EU countries (for which Iran was a fairly significant market in the past). The Gulf Cooperation Council countries, which had enjoyed a blossoming of trade activity with Iran before tightened sanctions took effect, fear the loss of that income. Meanwhile, the rapid expansion of unofficial, black-market trade between Iran and Afghanistan, Iraq, Pakistan, and Turkey is distorting and undermining the economies of those states and the region.

- **Detrimental effects on the global energy supply and the stability of the global energy market.** In the past, a rise in tensions between Iran and the international community has often produced a jump in world oil prices. While that volatility may be reduced somewhat now—due to the relatively soft market for oil and the calculation that Iran’s share of the global oil market is in decline—world oil prices remain sensitive to such tensions. Even if the EU oil embargo were to be terminated as part of a nuclear deal, Iran’s oil fields will have deteriorated and Iran’s presence in the global oil market will diminish, at least over the mid-term. And sanctions have affected Iran’s ability to supply liquefied natural gas to the global market, by preventing Iran from using any patents or accessing international expertise to develop a capacity to export liquefied natural gas.

This Executive Summary cannot do justice to the extended debates and months of study that have gone into preparing the paper that follows, or to the rigor of the research and analysis that buttress its findings. Our aim throughout this effort has been to present the best possible assessments—based on a large body of expert analysis and opinion—of a key strategy for addressing one of the most critical security challenges facing the United States. We hope the facts and professional judgments we have assembled will stimulate informed debate and reflection among citizens and leaders alike.

“Facts are stubborn things; and whatever may be our wishes, our inclinations, or the dictates of our passions, they cannot alter the state of facts and evidence.”

John Adams

I.

Introduction

The United States and the international community have traditionally used sanctions to influence the behavior of nations that might represent a threat to peace, in cases where the use of military force is not called for (or not yet called for) and where diplomatic solutions have proved difficult to achieve. The regime of sanctions against Iran that has evolved over nearly three decades is designed to pressure Iran to adopt different foreign and domestic policies.

Sanctions against Iran have been perceived in different ways by different policy makers and legislators: as bargaining chips in negotiations over Iran's nuclear program; as a strategy for getting Iran to the bargaining table; as a signal of the United States' seriousness about halting the proliferation of nuclear weapons and a warning to other states that might aspire to develop such weapons; as a counterterrorism measure designed to constrain Iran's support of organizations such as Hezbollah and Hamas; as a means of forcing Iran to change domestic policies that violate the human rights of its citizens; even (unofficially) as a tool for forcing regime change in Iran.

But whatever the purpose or purposes associated with a particular set of sanctions, the benefits and potential benefits of the sanctions have often been taken as given, since the imposition of sanctions is widely considered to be the most powerful alternative to military action against a nation whose behavior is antagonistic to core U.S. interests. And precisely because sanctions represent the possibility of achieving important objectives without the human and financial costs of armed conflict, the costs and potential costs of sanctions themselves have not been routinely addressed in the public or policymaking debate.

The authors and signers of this paper are senior experts from the national security and foreign policy communities who believe that **a careful assessment of the costs as well as the benefits of sanctions will enhance the quality of the discussion about the sanctions regime and overall U.S. policy toward Iran.** This is not an advocacy document, nor does it offer specific policy recommendations. Instead, we aim to encourage informed public debate on a question of vital importance to our nation. We hope that our balanced consideration of this issue will help readers reach their own informed conclusions.

We recognize that sanctions against Iran are part of an integrated U.S. policy approach that also involves the threat of military operations (unilateral or multilateral) and a supporting diplomatic effort. In a previously published paper from The Iran Project entitled *Weighing the Benefits and Costs of Military Action Against Iran*, we analyzed the benefits

and costs of using force against Iran. In subsequent papers, we will discuss the pursuit of a political solution through negotiations.

Like our report on the use of force, this report on sanctions aims to serve the cause of rational analysis and dispassionate policymaking in the national interest. These are not advocacy documents, nor do they offer specific policy recommendations. But the two papers differ in one fundamental way. The paper on use of force sought to evaluate the benefits and costs of an action not yet taken. This paper on sanctions focuses on a course of action to which the United States is already committed. The difference has important implications for how we have approached our task. Obviously, in looking at sanctions as compared to the possibility of military action, we are able to examine some impacts that are already apparent and then to project those impacts into the future. Less obvious, perhaps, is what this difference implies for our goal of informing debate and decision making. **Given the United States' deep engagement and international leadership on sanctions as a strategy for pressuring Iran, we believe it is appropriate here not only to lay out our assessment of the benefits and costs of this strategy, but also to offer reflections that might help the United States and its allies get maximum advantage from the sanctions placed on Iran, while minimizing the potential for negative consequences.** Accordingly, this paper includes a special section on making sanctions work, which precedes and frames our discussion of benefits and costs.

The paper consists of an Executive Summary and the report in five parts:

- I. Introduction
- II. Background on the Sanctions
- III. Reflections on Making Sanctions Work
- IV. Benefits of the Sanctions
- V. Costs of the Sanctions

A Primer on Sanctions Against Iran, Including Potential Future Sanctions and Provisions for Lifting the Sanctions, follows the main report and includes a chart summarizing sanctions since 1979.

Shared Understandings: The authors of this paper brought to their task some shared understandings that provided our diverse group with a common perspective.

- We recognize that Iran's behavior—particularly with regard to its nuclear program—poses complex and dangerous challenges to U.S. interests and security, as well as to the security of Israel and possibly to stability in the Middle East. These challenges are serious and demand a

response. That is the broad context within which we consider the benefits and costs of sanctions. In looking systematically at both the positive and the negative potential of sanctions, we do not suggest that sanctions should be abandoned in favor of taking no action (or in favor of using military force, which we believe must be viewed as a last resort).

- We understand that sanctions against Iran are presently the dominant element of an integrated U.S. policy that also involves the threat of military operations (unilateral or multilateral) and a supporting diplomatic effort. Those complementary elements of U.S. policy are not considered in this paper. We focused on the use of force in an earlier paper, entitled “Weighing the Benefits and Costs of Military Action against Iran”; in subsequent papers, we will discuss strategies to reach a political solution. In choosing to examine each element of U.S. policy separately, we have foregone opportunities to weigh the benefits and costs of the elements in combination. But given the seriousness of the foreign policy challenge posed by Iran, we are persuaded that there is value to providing a balanced, fact-based analysis of the major strategic options available to the United States.
- While there is a large body of literature on the utility and the shortcomings of sanctions as a policy tool, we make only occasional references to that broad debate. Nor do we attempt to assess the role that sanctions have played in recent U.S. and international efforts to affect the policies of states other than Iran. Our focus here is on U.S. and U.S.-led international sanctions against Iran. Our aim is to provide facts and analyses that could inform discussion of the specific and urgent problem of tensions with Iran, particularly over Iran's nuclear program.
- We are committed to basing our analysis and judgments on careful review of the excellent research available on the topic of U.S. and U.S.-led international sanctions against Iran. We have tried to give full credit to the work of others in the endnotes to this paper. Our own professional judgments, when offered, are clearly identified as such.
- We are mindful of the challenges facing anyone trying to evaluate what is a benefit and what is a cost of the sanctions against Iran. Since the United States and other nations are simultaneously deploying other strategies—including the threat of military attack—that are aimed at achieving some of the same results, it is difficult to determine with certainty which strategy is producing which outcome. In addition, the U.S.-led international sanctions regime is still evolving and its longer-range effects are not fully apparent. Nonetheless, we believe that insights from the past thirty years of experience with sanctions against Iran can serve as a reasonable basis for thinking through future possibilities.

“Negotiation in the classic diplomatic sense assumes parties more anxious to agree than to disagree.”

Dean Acheson

II.

Background on U.S. and U.S.-Led International Sanctions Against Iran

U.S. sanctions against Iran span more than thirty years and reflect several unique stages in the troubled history of U.S.–Iran relations, as well as several shifts in the nature of U.S. government concerns about Iran.¹ Over time, different sanctions have been imposed with different objectives. One contribution this paper seeks to make is to disaggregate these multiple layers of sanctions, thereby providing a clearer context within which to weigh the benefits and costs of existing and possible future sanctions against Iran.

1. FOUR PHASES OF SANCTIONS

We identify four major phases of U.S. sanctions against Iran since 1979, all of which remain in place today. These four periods are summarized below.

1.1 The first phase, dating from 1979 through 1995, was largely unilateral on the part of the United States. Initially imposed in response to the hostage crisis of 1979, sanctions were increased in 1984, when Iran was placed on the U.S. list of “state sponsors of terrorism” because of suspected Iranian involvement in the 1983 terrorist attack on U.S. Marine barracks in Lebanon. Additional sanctions were put in place during the eight-year Iran–Iraq war, to curb Iran’s military capability and procurement efforts such that Iran would not gain military supremacy in the region. U.S. sanctions were increased again in the mid-1990s in response to Iran’s support for Hamas’ campaign of suicide bombings in Israel, and—given growing concerns about Iran’s nuclear intentions—in response to Iran signing a contract with Russia to build a civilian nuclear power reactor at Bushehr. Overall, these sanctions were designed to reduce Iran’s support for militant proxy groups; limit Iran’s conventional military capability; and restrict Iran’s ability to develop nuclear weapons. The sanctions were structured in such a way as to give the American President the power to alter or repeal the terms of the sanctions at any time (for example, by removing Iran from the state sponsors of terrorism list, or lifting the trade ban on arms and oil).

1.2 The second phase, from 1996 to 2006, was designed to reduce the revenues—including from oil and natural gas—upon which Iran presumably drew to fund militant groups. Legislation passed in 1996 (the Iran–Libya Sanctions Act, or ILSA, later amended to become the Iran Sanctions Act, or ISA) provided for sanctions against foreign companies that make major investments in Iran’s energy sector. Although one intention of this

legislation was to persuade key U.S. allies to join the United States in imposing sanctions on Iran, allies chose instead to pursue a “critical dialogue” with Iranian diplomats at this point. A second phase of these sanctions was enacted immediately after the terrorist attacks of September 11, 2001, with the goal of preventing any U.S. citizen from conducting business transactions with entities (including the government of Iran) that have been judged to provide support for terrorist organizations. The President has some discretion in the application of these sanctions.

1.3 In the third phase, from 2006 through 2010, the United States gained enough support from allies and other countries, with the important inclusion of China and Russia, to pass three United Nations Security Council (UNSC) resolutions (1737, 1747, and 1803) that impose targeted sanctions on Iran. These resolutions were intended to persuade Iran to suspend indefinitely its enrichment of uranium; to sign the “Additional Protocol” to the Nuclear Non-Proliferation Treaty of 1966, which would permit expanded inspection of Iran’s nuclear facilities by the International Atomic Energy Agency (IAEA); and to reach a negotiated agreement with the “EU3” (Britain, France, and Germany) regarding the future of Iran’s nuclear program. The resolutions also prohibited all member states from selling Iran any equipment or goods that could be used for the development of its nuclear or missile programs. These sanctions can only be altered by the passage of new UNSC resolutions that would terminate or supersede the previous resolutions.

1.4 The fourth phase of sanctions began in 2010 and has continued through the present. These sanctions are more comprehensive than any imposed before, in that they have been designed to cause severe damage to Iran’s overall economy. They are also more complex, involving diverse mechanisms for implementation and varied objectives, which range from pressing Iran to negotiate a nuclear deal to ending human rights abuses, and promoting civil liberties within Iran’s borders. Some of these sanctions have been supported and embraced by the U.S. Congress, core U.S. allies, and the United Nations Security Council (including Britain, France, Germany, Russia, and China). The sanctions are embodied in UNSC resolution 1929, passed in 2010, which bans companies from working with Iran’s energy industry, providing shipping insurance or trade credits, and conducting financial transactions with Iranian banks. The U.S. Congress took UNSC resolution 1929 a step further by enacting the Comprehensive Iran Sanctions Accountability and Divestment Act (CISADA), which aimed at preventing foreign firms from selling gasoline to Iran and blacklisted several Iranian banks. Additional sanctions were put in place by Executive Order and by the U.S. Congress, in light of the Iranian

regime’s repression of the Green Movement protesting the elections of June 12, 2009, and the worsening conditions in Syria (where Iran is assisting the Assad government). These sanctions freeze the U.S.-based assets of Iranian officials suspected of committing human rights abuses, and place direct sanctions on the Iranian Central Bank. Revoking or amending this set of sanctions would require the passage of new UNSC resolutions, action by the U.S. Congress, and the repeal or overriding of an Executive Order.

For a more detailed analysis of the sanctions regime, including potential future sanctions and provisions for lifting the sanctions, please see the last section of this paper, *A Primer on Sanctions Against Iran*.

“ Leadership is the art of getting someone else to do something you want done because he wants to do it. ”

Dwight D. Eisenhower

III.

Reflections on Making Sanctions Work

The United States is committed to the imposition of sanctions as a strategy for pressuring Iran to change its policies and actions. The sanctions against Iran have been sustained and tightened over an extended period of time; they enjoy multilateral support, including among many of Iran's neighbors; and they have been imposed in a relatively well-disciplined fashion. As such, the sanctions regime against Iran is a promising test of the ability of nonmilitary forms of pressure to help bring about changes in the behavior of adversaries. Reflecting on three decades of experience with sanctions against Iran, and on the nature of sanctions as a foreign policy tool, we offer the following general observations about how the United States and its international allies might get the greatest possible advantage from the sanctions imposed against Iran, while minimizing potential negative impacts.

All of these observations, in one way or another, make the point that the effectiveness of sanctions against Iran will depend not only on the sanctions themselves, but also on the negotiating strategy associated with them. As indicated above, negotiating strategies will be the focus of subsequent reports from The Iran Project.

1. THE OBJECTIVES OF SANCTIONS

Because the sanctions against Iran have evolved over almost three decades, even many decision makers in Washington may not fully grasp the complexity of the sanctions regime. As suggested in the brief history above and detailed in the primer and chart at the end of this paper, the economic and financial sanctions now in effect against Iran are not the product of a single policy, nor have they flowed from a single legal framework. They have been shaped by different institutions and government entities, over the course of more than thirty years. They rely on different criteria, guidelines, and implementation vehicles. And critically, they treat sanctions as a means of attaining diverse objectives, including:

- **Achieving a negotiated agreement on Iran's nuclear program** that would block Iran from developing nuclear weapons and provide greater access to and monitoring of its nuclear facilities.
- **Restricting Iran's ability to acquire parts and materials needed for its nuclear program**, in the absence of a negotiated agreement.
- **Ensuring that Iran discontinues funding and support for Hezbollah and Hamas,**² as well as other non-state actors (and more recently, restricting and opposing Iran's support of the Assad regime in Syria).

- **Requiring Iran to respect the human rights** and protect the civil liberties of the Iranian people.³
- **Limiting Iran's military capabilities and its ability to exert influence in the region.** This includes inhibiting Iran's development of ballistic and cruise missiles and restricting the development of its conventional military capabilities.

For some in Washington, sanctions also are a means of reaching the far broader objective of **producing a change in Iran's government (regime change or a fundamental change in the Iranian government's policies and orientation)**, by creating division in the regime and increasing domestic pressure on Iran's leadership. While this objective has been disavowed by the U.S. Department of State, the combination of strenuous U.S.-led sanctions, expressed U.S. support for opposition groups, and ongoing covert operations against Iran could be interpreted by Iran's leaders as de facto pursuit of regime change.⁴ Iranian defiance in the face of sanctions may also encourage a kind of "mission creep," as more U.S. officials conclude that it will not be possible to attain the wide range of desired outcomes as long as the current Iranian leadership is in place. Some experts point out, however, that even if there were to be a change in Iranian leadership, any imaginable successor government would likely take a similar position on key issues, such as nuclear enrichment and opposition to Israeli policies in the region.⁵

The multiple objectives embedded in the sanctions regime will complicate U.S. policymakers' efforts to determine whether and/or when sanctions have "succeeded" in producing their desired results. Different parties, with different agendas, can make conflicting claims about the effectiveness of sanctions.

We believe the United States might be better able to gauge and maximize the effectiveness of recent sanctions if the objectives that are most relevant and pressing today could be disentangled from other objectives that have been linked with sanctions. Or, to put this differently: Sanctions alone are not a policy. If resolving the nuclear issue is now the most important objective of the sanctions regime, then sanctions strategies—and the negotiating strategy associated with sanctions—should be assessed in terms of their effectiveness or likely effectiveness in achieving that objective.⁶

2. ASSUMPTIONS ABOUT INFLUENCING THE DECISIONS OF IRAN'S LEADERS

The diverse sanctions policies now in effect against Iran share an underlying assumption about the ability of sanctions to produce changes in the policies of Iranian leadership by

escalating the economic pressure on Iran's economy, institutions, private business community, and people. At a certain point, the Iranian government—it is presumed—will have to decide whether to tolerate further deterioration of its national economy, with the implications that might have for Iranian institutions and elites, or accede to some demands and become more willing to compromise in order to reach agreement.

The sanctions regime is most likely to get results, we believe, if the United States and its allies continue to scrutinize this core assumption about their ability to influence the decisions of Iran's leaders. We estimate that the imposition of escalating sanctions has a greater chance of contributing to progress toward limited but important objective—such as motivating Iran to agree to work toward a comprehensive resolution of the nuclear issues—than it does to contributing to the achievement of sweeping objectives, like Iran's capitulation to the broader set of U.S. demands or regime change in the Islamic Republic of Iran.

As described in Section IV of this paper, the comprehensive sanctions in effect since 2010 have resulted in serious damage to Iran's economy and created increasing domestic pressure on Iran's leaders. But while the pain of recent sanctions may well help bring Iran to the negotiating table, it is not clear that these sanctions alone will result in agreements on changes in Iranian policies, much less in changes in Iran's leadership. If Iran were to signal a willingness to modify its nuclear program and to cooperate in verifying those modifications, for example, Iranian negotiators would expect the United States and its allies, in turn, to offer a plan for easing some of the sanctions. Absent a calibrated, positive response from the West, Iran's leaders would have little incentive to move forward with negotiations. Inflexibly imposed, escalating sanctions begin to lose their value as leverage to elicit changes in Iranian policy, including on nuclear issues. By holding out for more ambitious objectives, such as capitulation to all U.S. demands or regime change, the United States and its allies could inadvertently undermine the possibility of success in achieving more-limited objectives.⁷

In other words, the Iranian government is engaged in its own ongoing calculation of costs and benefits, and may conclude that its interests are best served by digging in. Sanctions intended to create increasing pressure on Iran's leaders could end up encouraging harsher repression of domestic opposition by the Iranian regime, while causing severe hardships for the Iranian population. The long and brutal war between Iran and Iraq, in the 1980s, is evidence of the Iranian leadership's determination not to cede ground, even at great cost.

This conundrum is inherent in the use of escalating sanctions as a strategy for bringing about policy change. **Sanctioning states are faced with the question of**

whether increasing sanctions or maintaining them indefinitely will achieve the desired objectives—or whether there is instead a point at which the addition of more sanctions or the inflexible application of existing sanctions might backfire or become counterproductive. For sanctioning states, in other words, the question is not “how can we force our adversary to do what we want,” but rather “how can we change our adversary’s calculus, such that they decide it is in their interests to do what we want done?” Sanctioning states might get the maximum advantage from sanctions by recognizing when an optimal degree of pressure has been reached, and beginning to convert a purely confrontational strategy into a strategy that combines pressure with positive signals, thereby creating momentum toward negotiations. How to identify that optimal “moment” is, of course, a difficult challenge for the negotiators in any tense diplomatic maneuver.

3. EASING OR LIFTING SOME SANCTIONS

The complex mix of processes and criteria required to lift the sanctions that are now in place may make it challenging for an American administration to chart a clear and calibrated response to progressive changes in Iran’s policies and actions. The American President generally has a high degree of discretion to reduce sanctions on any country, including Iran. Any sanction imposed solely by Executive Order can be lifted by an Executive Order repealing or altering the original order. In the case of Iran, however, the fact that so many of the U.S. sanctions have been enacted into law limits the President’s discretion. Virtually all of the relevant laws would allow the president to waive the application of sanctions in the national interest or for national security reasons. Under some laws, the President also has the power to determine whether a sanctions violation has been committed or not; he could implement the law in ways that reduce the effects of sanctions on Iran. In other cases, the limitations on Presidential action are much more severe. The CISADA law (Comprehensive Iran Sanctions Accountability and Divestment Act) that codified the ban on trade with Iran would have to be repealed or substantially amended by Congress to give the President the ability to take any steps that would result in restoring U.S.–Iran trade.

Realistically, given the politics of U.S. relations with Iran, the President’s actions may be limited politically if not legally. The Iran Sanctions Act, for example, a centerpiece of the U.S. sanctions regime, lays out specific criteria Iran must meet in order for the act to terminate. The act terminates if the President can certify that Iran 1) has ceased efforts to design, develop, or acquire a nuclear explosive device, chemical/biological weapons, and ballistic missile technology; 2) has been removed from the U.S. list of state sponsors

of terrorism; and 3) poses no significant threat to U.S. national security interests or allies. The President has the authority to make these certifications and to cease applying this law with respect to Iran—but such a decision would likely face strong opposition from the U.S. Congress, many of whose members are committed to maintaining sanctions as one means, among others, of hastening the demise of the Iranian regime.

The diverse objectives reflected in the current sanctions regime also are likely to complicate the progressive easing of economic pressure on Iran. Even if Iran were willing to reach an agreement on the nuclear issues, many sanctions that were imposed for reasons other than Iran’s nuclear activities would likely remain in place (possibly reducing the incentive for Iran’s leaders to take further steps toward agreement). One extreme reading of the current sanctions regime is that Iran would need convincingly to reorient its entire foreign policy and many of its domestic policies—and perhaps change its leadership—in order to achieve a complete lifting of U.S. sanctions, including those that compel foreign firms to limit their trade with Iran.

Finally, since the U.S. is not the only player involved in the international sanctions regime, easing some sanctions also would require coordination with other nations and the adoption of new resolutions by the UN Security Council. Given the diplomatic capital that the United States has expended on persuading other countries to join the sanctions regime, even the easing of bilateral sanctions would likely require consultation with allies.

So far, neither the United States nor the UN Security Council has stipulated the precise criteria that Iran must meet to trigger the lifting of sanctions, or the sanctions that would be lifted in exchange for Iran’s actions. There is no action-for-action plan that all parties understand. Our analysis suggests that the process of unwinding some of the sanctions will be difficult but not impossible; in particular, it will be difficult for the President on his own, without Congressional approval, to accomplish any significant easing of the sanctions. **While we make no specific recommendations here about a process or sequence for easing sanctions in response to Iranian cooperation, we do wish to underline the value and importance of the United States having a plan for such an eventuality.**

Of course, we recognize that an alternative “exit” from the sanctions strategy would be the use of military force. In some past cases in which a sanctions regime has failed to achieve its objectives, the United States and other states have chosen to use military force. Military action is always an option in situations where a negotiated settlement is not achieved and where there is a significant threat to U.S. national security. Sanctions would not necessarily be removed rapidly, or at all, even after the resort to military action. (For a detailed analysis of this option, see The Iran Project’s first report, *Weighing Benefits and Costs of Military Action Against Iran*.)

“I would rather try to persuade a man to go along, because once I have persuaded him, he will stick. If I scare him, he will stay just as long as he is scared, and then he is gone.”

Dwight D. Eisenhower

IV.

Benefits of the Sanctions

International sanctions against Iran, led by the United States, have placed much of the international community on higher alert about the threat of Iran's nuclear program, and sent a clear message to Iran's leadership about the cost—to Iran's economy, stability, and regional influence—of continuing to ignore the demands of the United States, the United Nations Security Council, and others. Targeted (or “smart”) sanctions have reduced Iran's ability to acquire material that could be used for a nuclear weapons program and its ability to modernize its armed forces. U.S. leadership of the sanctions regime has also reassured regional friends and allies, such as Israel, about the United States' commitment to their security and appreciation of their concerns about Iran's intentions.

As suggested in section III above, the major conundrum in the application of comprehensive sanctions that weaken Iran's civilian economy is whether such pressure will finally produce the major benefit of helping to change the policies and actions of Iran's leaders, especially as regards Iran's nuclear program. Sanctions have worked to damage Iran's economy and further isolate Iran from the international community. The test now is whether the sanctions ultimately will work to change Iranian policies.

Because the international sanctions regime is still evolving and its longer-range effects are not yet apparent, our observations about some of these benefits necessarily involve a certain amount of speculation. In the interest of clarity, where there is disagreement among experts as to whether certain potential benefits of sanctions will be realized, we have presented both sides of the debate.

1. ADVANTAGES OF SANCTIONS AS A POLICY APPROACH

Sanctions have proved to be a way for many nations to demonstrate the seriousness of their concerns about Iran's nuclear intentions and support for violent non-state actors such as Hezbollah and Hamas, without going to war.

1.1. Demonstrating international support. By making international sanctions an organizing principle for opposition to Iranian policies and actions, the United States has successfully converted its bilateral adversarial relationship with Iran into an international expression of opposition to Iranian behavior. America's strategy of isolating and penalizing Iran through international sanctions has represented an attractive alternative to military action, with the result that the United States enjoys a degree of support that would almost certainly not materialize around a military strategy. Gradually, even some

of Iran's neighbors—as well as Russia and China, reluctantly and with reservations—have become active participants in the various sanctions against Iran. This growing coalition now includes 36 nations, including the United States, according to the administration.⁸

1.2. Reassuring regional allies. The severity and comprehensiveness of the sanctions regime has reassured Israel and other friendly states in the region that the United States understands their security needs and is determined to prevent Iran from developing a nuclear weapon, while doing everything possible to avoid a destabilizing war in the region. At least for the time being, the sanctions have helped to dissuade Israel from taking unilateral military action against Iran's nuclear facilities.⁹ In particular, the imposition of sanctions on Iran's banks and oil exports has enabled U.S. leaders to make the case to Israeli counterparts that the United States and the international community are taking direct and forceful action, short of the use of military force, to address Israeli fears about Iran's intentions. That said, Israeli leaders have warned that unilateral military action remains an option, should the sanctions regime combined with diplomacy fail to produce a settlement on Iran's nuclear program.

Most of the governments of the regional states—with the exception of Iraq, Afghanistan, and possibly Turkey and Pakistan—have agreed officially to abide by most of the sanctions and have supported (at least publicly) this approach to dealing with Iran. Many of these countries are concerned about Iran's role in the region and have a strong interest in preventing Iran from becoming a nuclear-armed state. Implementation of sanctions by regional states has been somewhat mixed, reflecting uncertainty among leaders in the Gulf States, Turkey, and Egypt about how best to handle their problematic and—at some level—threatening neighbor. In addition, the sanctions have disrupted typical trade patterns among those states and Iran, driving much of the trade activity underground and into the black market, thereby reducing commercial benefits to the states.

1.3 Keeping the door open for renewed diplomacy and a better relationship in the long run. Sanctions are more likely than military action to preserve the long-term possibility of establishing a normalized relationship with the Iranian people and government, even absent regime change (although if sanctions are widely perceived as economic warfare, this effect would be significantly reduced). It would make sense for the United States eventually to be able to have a working relationship with one of the most powerful and influential countries in the region and to take advantage of areas of mutual interest. Once sanctions and negotiations are abandoned for military action, it would become

extremely difficult to pursue diplomatic discussions, unless and until the Iranian regime surrenders or capitulates—which seems unlikely, although not impossible.

1.4 Deterring other states from developing nuclear weapons. A major U.S. foreign policy objective is strengthening the nonproliferation regime and developing tools for international cooperation to deter states from building nuclear weapons. The broad coalition supporting sanctions against Iran is an important component of a more assertive U.S. nonproliferation strategy, and its example may help to deter other states from seeking nuclear weapons.

2. SLOWING THE RATE OF EXPANSION OF IRAN'S NUCLEAR PROGRAM

U.S. government officials have said that targeted sanctions are slowing the expansion of Iran's nuclear program.¹⁰ Some have even argued that without sanctions and other pressures, Iran would already have a nuclear weapon.¹¹ We disagree with this judgment, however, since U.S. intelligence officials have stated with a high degree of confidence that the decision to build a nuclear weapon has not yet been taken by Iran's Supreme Leader.¹² Sanctions are thought to have been largely effective in reducing the importation of dual-purpose materials that would enable Iran to move forward with any plans for the development of missile-delivery systems and other aspects of a nuclear weapons capability.

According to recent International Atomic Energy Agency (IAEA) reports, however, Iran's capacity to enrich uranium continues to expand, and Iran's stockpile of low-enriched uranium (enriched to the level of 3.5–5%) has continued to grow.¹³ Sanctions apparently have limited Iran's ability to obtain centrifuge materials. Iran depends on smuggling for some key items—and Iranian efforts to reverse-engineer equipment have not been successful.¹⁴ Iran has so far failed to introduce a significant number of more efficient, second-generation centrifuges.¹⁵ But since Iran's nuclear program raised concerns in 2002, Iran has built, installed, and operated more than 10,000 centrifuges; and mastered the enrichment of uranium to the 20% level (which is relatively easy to enrich further into weapons-grade uranium). This raises doubts about whether sanctions have had a significant effect on an aspect of Iran's nuclear program that is central to the creation of a nuclear weapon.¹⁶ Iran has also added a number of sites and facilities to its nuclear program since 2002.

3. WEAKENING IRAN AND REDUCING ITS REGIONAL AND GLOBAL INFLUENCE

Proponents of sanctions have argued that as sanctions cause Iran's oil revenues to decline and disrupt its trade with neighboring states, Iran may be constrained in its ability to interfere in or influence states such as Iraq, Afghanistan, Syria, Lebanon, or the Persian Gulf countries. With diminished revenues and currency reserves, the United States and its allies hope that Iran may have to become more parsimonious in its financial support to movements such as Hezbollah. In addition, sanctions are changing the region's military balance in ways that do not favor Iran. And as sanctions reduce Iran's oil exports, in the short to medium term, Iran's influence as a global energy player is diminishing somewhat.

So far, at least in some respects, sanctions do not seem to have limited Iran's ability to exert its influence in the region. Iran continues to provide support, including money and weapons, to Lebanese Hezbollah, Shiite militias in Iraq, and militants in Afghanistan.¹⁷ Iran apparently has sent members of its Islamic Revolutionary Guard Corps (IRGC) to advise and even fight alongside the government of Bashar Al Assad in Syria, against his domestic opposition.¹⁸ To some extent, Iran's influence and strength in the region and the allegiance Iran enjoys from some violent non-state groups depend, not on financial realities, but rather on geographical realities and cultural, religious, historic, and ideological ties.

3.1. Iran's economy substantially weakened. International sanctions have significantly weakened Iran's economy, which also suffers from endemic mismanagement and corruption, and has been shaken by recent subsidy reforms.¹⁹ By U.S. estimates, Iran's oil exports have decreased by more than 40%. Annual inflation rates are high; external estimates range up to 70% or more than 100% by some economists, which is far from the rate acknowledged by the Iranian government at 27%.²⁰ Credit is drying up and only local credit cards are recognized. Unemployment is officially estimated at 17% but could be higher.²¹ The loss of oil income is already leading to significant layoffs among Iranian firms, and the inability to purchase essential parts has hurt manufacturing, including Iran's auto industry. Additionally, Iran has decided to cut imports of all non-essential goods.²²

International sanctions, particularly the EU oil embargo and steps taken by Japan, South Korea, India, and Turkey to cut their purchases of Iranian oil, are clearly affecting Iran's hard currency receipts.²³ As of 2012, according to estimates by the Energy Information

Agency (EIA), Iran is selling about 1 million barrels of oil per day less than it was in 2011, when it sold an average of 2.5 million barrels per day—a reduction of about 40%.²⁴ Energy traders have estimated that since the full imposition of the EU oil embargo, in July 2012, Iran has exported a daily average of about 1.3 million barrels per day.

To avoid U.S. sanctions on Iran's Central Bank, India and China are widely reported to be bartering goods for Iranian oil, further depriving Iran of hard currency.²⁵ Because of reduced oil sales, Iran has already had to store some unsold oil on tankers, and will likely have to cut production in some fields—a step Iran has sought to avoid because of the difficulty of restarting closed fields.

The decline in Iran's hard currency receipts caused the value of the rial to fall about 40% in the period from September 2011 to October 2012.²⁶ In the short term, Iran can rely on relatively healthy hard currency reserves, estimated at about \$70 billion, down from \$106 billion in late 2011 (Iran's Central Bank governor has claimed that the reserves amount to about \$150 billion, but many experts consider his figure exaggerated).²⁷ Iranian President Mahmoud Ahmadinejad said in May 2012 that Iran has enough reserves for two years, even if Iran were immediately to stop exporting any oil.

In the medium term, Iran may be able to offset some of the losses from reduced exports of crude oil by investing in the production of petroleum products, for which there is growing demand in the region. But over time, the sharp decline of Iran's oil exports will likely cause a significant depletion of Iran's reserve funds.

One must be cautious about extrapolating longer-term macroeconomic trends from discrete statistics in given years. According to the International Monetary Fund, which gets much of its data from the Iranian government, the Islamic Republic has suffered economically this past year, but projections for the next year are more positive.²⁸ On the other hand, the impact of today's unprecedented “crippling” sanctions only began to be felt in mid- to late 2011, so the data may not yet reflect the sanctions' full effects. In addition, as suggested below, sanctions against Iran have driven a substantial amount of commerce underground. Corruption and black-market trading are distorting and concealing the extent of economic activity within and across Iran's borders. It seems clear that the sanctions have hurt Iran, but determining how much and to what effect is difficult.

3.2. Regional trading disrupted. Iran's leaders have been surprised by the degree to which governments and leaders from the wider region have refused to help Iran deflect the effects of sanctions led by the United States, despite cultural and religious ties. For example, India reduced oil purchases from Iran in response to American pressure, and

the United Arab Emirates (UAE), previously fearful of antagonizing Iran (with which it has a longstanding territorial dispute), has prevented some UAE banks from processing transactions with Iran.²⁹

In addition, Kuwait has cut gasoline sales to Iran to comply with the provisions of America's Comprehensive Iran Sanctions Accountability and Divestment Act (CISADA). Saudi Arabia, which views Iran as a rival for influence in the Middle East, has offered more oil to buyers that reduce their purchases from Iran.

On the other hand, Iran is offsetting these losses somewhat by expanding its economic ties and diversifying its trade with other nations in the region. Iran has expanded trade with Iraq and is currently Baghdad's second-biggest trading partner.³⁰ Pakistan has resisted U.S. pressure to break its commitment to build a gas pipeline with Iran. Turkey is now buying gold to use as currency for the purchase of Iranian gas and oil, a practice that some observers believe is being encouraged by Iranian businessmen who are eager to exchange hard currency for gold, in case of further constraints on their ability to use Iranian *rials*. Turkey sold Iran \$6.4 billion of gold in the first nine months of this year, accounting for a rise of 50% in Turkey's total trade with Iran.³¹ As of October 2012, EU sanctions ban imports of Iranian natural gas re-exported by Turkey, so Iran's trade with Turkey in this area may slow in the near future. But trade between Iran and Turkey has increased in many non-energy sectors. Turkish imports of Iranian goods increased by 188% from 2007–2011,³² and according to the latest Turkish government data, 1,470 Iranian firms were operating in Turkey by the end of 2010, compared with only 319 in 2002. Turkish firms also frequently facilitate transactions between Iranian companies and companies in other countries.³³ Because Turkey is such a valuable strategic ally for the United States in the Middle East, it may be difficult for U.S. policymakers to pressure Turkey to reduce its strong economic ties with Iran.

In addition to these trade relationships, expansion of the black-market and illicit cross-border trade between Iran and its neighbors has strengthened clandestine ties where open commercial ties have been weakened or severed.

3.3. Regional military balance shifting against Iran. The ban on heavy weapons sales to Iran, imposed by UN Security Council Resolution 1929 in 2010, has limited Iran's ability to modernize its armed forces at a time when its neighbors are getting U.S. assistance in upgrading their military forces (see below). This relative decline in Iran's conventional weapons strength may have reduced somewhat Iran's capacity for regional power projection. Iran's last major round of heavy arms purchases (tanks, combat aircraft, large

patrol boats) took place in the early 1990s, and UN Resolution 1929 prohibits countries from selling Iran spare parts or providing maintenance services for those weapons. While Iran is now able to manufacture most of this basic military hardware domestically, sanctions are preventing Iran from obtaining or developing high-tech military equipment. Russia has interpreted Resolution 1929 as barring delivery of its sophisticated S-300 air defense system to Iran, and has canceled its contract with Iran for that system. So far, no significant violations of the sanctions on heavy weapons sales have been detected.³⁴

In contrast, Iran's neighbors in the Persian Gulf are becoming better equipped militarily, as they purchase large volumes of sophisticated weaponry from the United States. The armed forces of all the Gulf States combined are smaller in number than Iran's armed forces, but sophisticated modern equipment is helping to compensate for this deficiency. In fact, the Gulf States have been investing heavily in modern military equipment for years, and already outclass Iran in this arena. Missile defense systems acquired from the United States have the potential to neutralize the Iranian missile threat.³⁶

In the absence of imported weaponry, though, Iran has been concentrating on developing more sophisticated missiles and rockets. According to Israeli intelligence and other sources, Iran's new missiles are inaccurate; but they are still considered to be a threat.³⁷ Moreover, we assume that Iran's retaliatory or even offensive strategies rely less on conventional forces and more on asymmetrical warfare—covert operations, attacks by Shia surrogates, use of small boat attacks, and terrorism tactics.

3.4. Iran declining in importance as a global energy player. As sanctions reduce Iran's oil exports, international energy supplies and prices may become somewhat less vulnerable to sudden shocks caused by Iranian threats to withhold oil. The global energy market might be able to adjust to the reduced presence of Iranian exports over a period of time. That said, tensions with Iran can still rattle the global marketplace. Any Iranian threat to interfere with oil shipments through the Strait of Hormuz—and of course, any increased threat of conflict in the Middle East—could result in a significant price spike.³⁸

4. CREATING INTERNAL DIVISION AND DISCONTENT IN IRAN

Both elites and the general public in Iran are feeling the effects of the economic deterioration produced by the sanctions regime. Elite distress and public unhappiness could create pressure on the Iranian regime to reconsider certain policies, including Iran's commitment to a nuclear program. But it is difficult to judge whether the direction of change, should it occur, will be favorable to U.S. interests.

4.1. Effects on elite thinking. The mounting economic and financial restrictions on Iran are having an impact on Iran's elites and core institutions, such as the IRGC, the Bazaar (merchant class), the clerics, and the wealthy—all stakeholders in Iran's complex power structure. Diverse stakeholders are being affected to different degrees by the sanctions. Semi-official government entities in Iran may actually be benefiting in some ways from the sanctions (as discussed under Costs of the Sanctions below), and therefore may not be interested in redefining policy goals—although their increasing stake in the Iranian economy may also make them quicker than other Iranian leaders to appreciate the scale of the damage that has been caused by the sanctions, and to push for steps to halt the bleeding. While President Ahmadinejad has certainly been criticized for his mismanagement of the economy, it is difficult to judge whether financial losses and presumed demoralization within elite circles have stimulated debate over Iran's foreign policy, including whether Iran should make some concessions on its nuclear program. Nor can we be certain that any debate that occurs will result in changes favorable to the United States. Our understanding of the internal workings of Iran's power structure is limited due to the prolonged lack of official and unofficial contact between the United States and Iran.

U.S. intelligence officials testified before Congress in 2012 that Iran has not yet made the decision to pursue development of a nuclear weapon.³⁹ Even so, the threat of stiffer sanctions does not appear to have stopped Iran from taking steps in its nuclear program that alarm the international community. The Supreme Leader's calculus may change in the future—but the nuclear program is a major national priority, and other factors may be more important than sanctions in affecting his decisions about it (ranging from the Supreme Leader's own *fatwa*, or religious decree, forbidding the building or use of nuclear weapons, to concern that the decision to build a nuclear weapon would trigger military action by the United States and other nations). If the Supreme Leader believed it was in the regime's interest to modify Iran's nuclear policy, that might also change his calculus; at present, he is thought to believe that the nuclear issue is just a pretext for regime change, and that sanctions will remain in place no matter what Tehran does.

4.2. Effects on public thinking. Sustained sanctions have already fundamentally changed the quality of life in Iran, and the continued decline in Iran's reserve funds will almost certainly result in cut-backs in social welfare spending and public services. Public discontent with economic conditions and domestic policies is growing. But here, too, it is difficult to judge whether public unhappiness will lead to pressure for a change in foreign

policy or national leadership—or, on the contrary, to greater public support for the Iranian regime in the face of international hostility—or to public fearfulness, passivity, and accommodation under an ever more centralized and autocratic state.⁴⁰ While it could be argued that public discontent and unrest might ultimately weaken the Iranian regime, we believe the regime is likely to resort to harsher repressive measures to prevent popular frustration from boiling over.⁴¹

5. ENHANCED SANCTIONS MIGHT CHANGE IRAN'S NUCLEAR NEGOTIATING STRATEGY

In Section III, Making Sanctions Work, we noted that the sanctions against Iran have been sustained over time, made increasingly comprehensive, and imposed in a well-disciplined fashion (for the most part). They are reflective of a relatively unified position on the part of the international community. For these reasons, the sanctions regime is a promising test of whether nonmilitary forms of pressure can help to change the policies and actions of adversaries. *If* Iran's leadership were to decide that the popular unrest and elite discomfort caused by comprehensive sanctions could threaten the stability of the regime, and *if* the sanctioning nations were able to identify the moment when an initial deal could be made and the dynamics of confrontation could be modified to encourage further negotiation, then sanctions will have contributed to the peaceful resolution of a tense international stand-off.

Even if agreements are reached with Iran that limit its nuclear program, we could not be certain that sanctions were the determining factor; the threat of military action might be an even more persuasive factor. But such an outcome could be a convincing demonstration of the value of sanctions—one of the first important cases, historically, in which sanctions were so effective.

Earlier, targeted sanctions did not appear to have much impact on the negotiating strategy of Iran's leaders. But as international sanctions have increased in severity and comprehensiveness, the United States has seen some indications of a greater willingness on the part of Iranian leadership to negotiate seriously. The tone of Iran's official communications with the UNSC negotiating team, called the P5+1 (the five permanent members of the Security Council, plus Germany), has become more moderate. In April 2012, Iran returned to nuclear talks with P5+1 in Istanbul; talks were held in Baghdad in May 2012, and in Moscow in June 2012. "Expert level" meetings followed. In these talks, Iran suggested that it might be willing to suspend its enrichment of uranium to the 20% level.

IV. BENEFITS OF THE SANCTIONS

The talks have not, however, produced a breakthrough or the outlines of a possible initial agreement. As a condition of agreeing to end 20% enrichment, Iran insisted that the EU embargo on Iranian oil purchases be lifted and that Iran's right to enrich uranium for peaceful purposes be recognized—steps that the P5+1 has not been willing to take (or at least not at this point). While these developments suggest that the crippling sanctions on Iran's key revenue source have had some impact on the strategy of Iranian leaders, little actual progress has been made so far toward achieving agreement on any of the outstanding issues.

The lack of firm evidence that the sanctions are contributing to the achievement of this core objective does not mean that they will not do so eventually. After thirty years of sanctions, however, it seems doubtful to us that the current severe sanctions regime will significantly affect the decision making of Iran's leaders—any more than past sanctions did—barring some willingness on the part of sanctioning countries to combine continued pressure with positive signals and decisions on matters of great interest to Iran.

When asked what most surprised him about the Vietnam War, former National Security Advisor Bundy replied “*the endurance of the enemy.*”

McGeorge Bundy



Costs of the Sanctions

The decision to make international sanctions a centerpiece of its Iran strategy has enabled the United States to build an unusually large coalition of nations concerned about Iran's nuclear intentions and its support of violent non-state groups. But this effort also has had some geopolitical costs for the United States, and fault lines are developing in the alliance, giving Iran some options for offsetting the impacts of the sanctions.

Sanctions designed to weaken Iran's economy, limit Iran's regional influence, and put pressure on Iranian leadership are having some effect, as indicated above—but they also are having some unintended negative consequences, including the rapid expansion of black-market trade and increased potential for corruption throughout the region.

While the tightening sanctions seem to be having a modest effect on Iran's nuclear negotiating strategy, they also risk undermining other long-term U.S. policy objectives vis-à-vis Iran, and for regional peace and stability. If the sanctions produce lasting alienation and cause the erosion of basic institutions and human capital in one of the largest, most dynamic societies in the Middle East, the damage could take decades and billions of dollars to restore.

1. DISPUTES WITH U.S. ALLIES AND OTHER COUNTRIES

The United States' determination to build a broad coalition around the sanctions regime has had some political costs. Differences with Russia, China, and other countries—including India, Turkey, South Korea—have widened as the sanctions escalate. Russia and China oppose U.S.-led efforts to pressure Iran's leaders by harming Iran's civilian economy. Sanctions-related tensions between the United States and Russia and China complicated U.S. efforts to achieve Security Council unity on assistance to the opposition movement in Libya, in 2011. Taken together, differences on sanctions and on Libya have contributed to the inability of the Security Council to enact a resolution on international action in Syria.

It is considered highly unlikely that Russia and China would agree to any additional sanctions against Iran. The reluctance of countries such as Russia, India, Turkey, and China to adhere to the full sanctions regime provides Iran a lifeline to key traders. Meanwhile, the U.S. government is expending considerable political capital on efforts to get Russian and Chinese agreement on sanctions against Iran, when the United States could be using its political capital to seek cooperation on other issues where the U.S. needs Russian or Chinese support.

European opposition to extra-territorial sanctions (sanctions that penalize the actions of foreign companies), such as the Iran Sanctions Act, nearly sparked a trade war with Europe in 1998.⁴² The dispute was defused by a compromise in which the EU agreed to cooperate with the United States on reducing Iranian support of terrorism, and the United States waived sanctions on France's involvement in a project to develop Iran's South Pars gas field (which was spearheaded by Total SA of France, with Russian and Malaysian partners).⁴³ Over the past eight or nine years, the EU position has evolved, and many European countries have become more assertive in generating their own strenuous sanctions initiatives. But Europe's current economic crisis may be contributing to new unhappiness with the sanctions regime against Iran, and in 2012, some European countries objected to U.S. sanctions on Iran's Central Bank, asserting that they amount to the imposition by the United States of a global ban on trade with Iran. The economic impacts of the sanctions on EU countries are discussed further below.

2. EROSION OF GOVERNANCE CAPACITY AND INSTITUTIONAL ACCOUNTABILITY IN IRAN

Sanctions may be eroding government capacity and institutional transparency in Iran in ways that empower conservative factions and create increased potential for corruption.

2.1 Enfranchising and enriching powerful factions, including the IRGC. As Iran's oil revenues fall and its hard currency reserves are depleted, the government will have limited ability to meet the needs of Iran's people, many of whom depend on government agencies for public services and social welfare benefits. Iranians increasingly may be forced to turn to influential family and factional connections who are in positions of power. This is enhancing the influence of the IRGC and the other, more conservative and repressive factions that have control over financial resources. These trends will significantly worsen official corruption and lack of accountability.⁴⁴

Already, IRGC-controlled firms have acquired large stakes in key economic sectors, including telecommunications, banking, transportation, and energy (where sanctions have forced global companies to abandon some projects to IRGC-linked companies).⁴⁵ IRGC enterprises now have the potential to start investing in other countries, including in markets that are antagonistic to U.S. interests.

Sanctions have also reduced the transparency of Iran's economy. The longer sanctions persist, the more economic transactions will be controlled by the Iranian leadership through black-market channels. Unable to use the international financial system, Iranian traders are increasingly turning to the traditional hawala system of money transfer.⁴⁶

Hawala transfers are conducted on the basis of trust and are not monitored by Iranian or other official agencies. While the hawalas are neither illegal nor illicit, some hawalas in the region have been exploited by violent non-state networks. To date, there has been no evidence of such misuse by Iranian traders.

3. EMPOWERING ANTI-REFORM LEADERS AND FACTIONS, AND DISEMPOWERING CIVIL SOCIETY

Indirectly and even directly, international sanctions against Iran may be enhancing the political power of repressive leaders and ultra-conservative factions, while reducing the already limited space within which Iranian civil society and opposition groups can operate.

3.1 Helping conservatives and the IRGC to rally support. Escalating international sanctions may help the Iranian regime, including an ever-more-powerful Iran Revolutionary Guard Corps (IRGC), to rally public support for the government by portraying sanctions as U.S.-led aggression, even "economic warfare."⁴⁷ Iran's leaders used international sanctions to encourage voter turnout in the parliamentary elections of March 2012, claiming that Iranian citizens had a duty to show their solidarity at a time of heightened international threat. After the elections, the regime hailed a purported turnout of nearly 65%, calling it evidence of public support for Iran's defiance of international pressure.⁴⁸ (Other explanations for a high turnout are also possible, including public displeasure with the regime's domestic policies.)

According to some analysts, Supreme Leader Ali Khamenei believes that overturning the Islamic revolution of 1979 is the true intent of the United States. Regime propaganda claims that sanctions are aimed at regime change, not at pressuring Iran to negotiate on nuclear and other issues. The longer sanctions go on, the harder it becomes for anyone in power to tell a different story.

3.2. Decreasing space for civil society. To the extent that ultra-conservatives and the IRGC increase their control over the Iranian system, room for political dissent and civil society will continue to shrink. It is not impossible that the Iranian elections in June 2013 will bring to power a president who is more moderate than Ahmadinejad and able to gain the Supreme Leader's trust.⁴⁹ But the ability of such a leader to lift some repressive domestic policies would be greatly enhanced if he could reach some agreement with the United States that permits the lifting of some sanctions.

The sanctions regime itself has had one unintended negative consequence for civil society activists. Sanctions designed to prevent the Iranian government from

obtaining equipment it could use to monitor the Internet are also preventing reformists and Iran's young, Internet-savvy population from obtaining technology that would enable them to communicate more freely through social media and the web.⁵⁰ The CISADA law recognized this potential problem and tried to mitigate it by exempting from sanctions the export to Iran of freely available software and other media technology. The exemptions only apply to free software, because of the restrictions on financial transactions with the Iranian banking system. Companies seeking to sell equipment and software to nongovernment customers in Iran can apply for an export license from the Treasury Department, but the licensing process is cumbersome and deters many potential exporters. The net effect is that reformists and dissidents do not have the access to the social media technology that they seek.⁵¹

4. LONG-TERM ALIENATION BETWEEN IRAN AND THE UNITED STATES

As comprehensive sanctions take their toll over the longer term, Iran's hardline factions are likely to flourish, and the United States risks losing the admiration of many of Iran's people—including the younger generation.⁵² Resentment over the hardships caused by sanctions could reduce the prospects for improving or normalizing U.S. and Iranian relations over time, even if the current Iranian regime were to be replaced.

The Iranian uprising in 2009—called the Green Movement—was initiated by young Iranians who came out to the streets to protest fraudulent elections. As the crowds grew in cities throughout the nation (at their peak, nonviolent mass protests involved millions of Iranians), protesters began to demand greater political freedoms. This reform movement has been repressed, but not crushed or eliminated.⁵³ We suspect that the young activists in the Green Movement represent a broader population of Iranians who admire American freedoms and want to live in an Iran where they have some of the same kinds of rights. The sustained imposition of crippling sanctions on Iran risks alienating Iranians under 30 years of age (nearly two-thirds of the entire Iranian population), as well as older Iranians. Reform-minded Iranians might decide that their first priority is to support their country and its government against the outside enemy.

In addition, sanctions have made it even more difficult for Iranian students and others to visit the United States or participate in cultural exchange programs—activities that the Iranian government has already done much to suppress.

5. INCREASED POTENTIAL FOR U.S.–IRAN CONFLICT AND REGIONAL VIOLENCE

The United States has framed international sanctions as an alternative to military action—and many reluctant countries have signed on to the sanctions regime in hopes of avoiding conflict. But to Iranians whose lives are negatively affected by sanctions and who see their country being targeted for increasingly harsh treatment, the international sanctions look like hostile acts. Iranian leaders have claimed that the sanctions regime is a “declaration of war.”⁵⁴ Some U.S. analysts have suggested that sanctions ought to be understood as part of a “force curve”; in this light, the function of sanctions is to “precede or accompany armed hostility,” not to prevent it.⁵⁵ Certainly, as suggested earlier in this paper, the United States and other states have chosen to use military force in some other instances when sanctions were perceived to have failed.⁵⁶

The international sanctions, combined with threats from Israel and a U.S. military buildup in the Persian Gulf, may have heightened Iran's readiness for asymmetrical retaliation against United States and allied interests. American intelligence suggests that Iran's Qods force (the unit of the IRGC that operates outside of Iran's borders) is already undertaking such action—for example, the purported Iranian plot, revealed by U.S. law enforcement in October 2011, to assassinate the Saudi Ambassador to the United States, and the IRGC's participation in the Syrian conflict.⁵⁷ Other contributors to an increased potential for conflict are Iran's expansion of its arms industry, and threats by Iran to hamper shipping through the Strait of Hormuz.

5.1. Expansion of Iran's domestic arms industry. The effectiveness of sanctions in reducing Iran's conventional military power (discussed above, under Benefits) is at least partly undermined by Iran's increased determination to expand its domestic arms industry. Unable to purchase some armaments from abroad, Iran has been developing survivable and lethal ballistic and cruise missiles, building more small boats to use in the Persian Gulf, and acquiring additional ships and submarines, according to an April 2012 report by the U.S. Department of Defense. Previous Defense Department reports, such as one issued in 2010, were largely disparaging of Iran's military capabilities. The revised assessment suggests that Iran might have circumvented the Resolution 1929 arms ban, to some extent, by domestic developments in arms building—or that the level of sophistication of its arms industry is increasing despite the ban.⁵⁸ The result is an elevated threat to U.S. forces in the Persian Gulf.

5.2. Potential for conflict in the Strait of Hormuz. The sanctions, and especially the partial oil embargo against Iran, have caused Iran's leaders to threaten action to close the strategic Strait of Hormuz to international shipping.⁵⁹ When full implementation of the EU oil embargo went into effect on July 1, 2012, Iranian legislators introduced a bill requiring that international ships carrying oil out of the Strait be halted.⁶⁰ If Iran were to act on such a threat (it has not so far), a military confrontation in the Persian Gulf would likely ensue—which would result in Iran itself being denied the use of the Strait.⁶¹ The United States has stated clearly, on numerous occasions, that U.S. forces would be deployed to reopen the Strait if Iran tries to block shipping through this crucial choke-point.

6. POTENTIAL HUMANITARIAN EFFECTS ON IRANIANS

The comprehensive sanctions that have been introduced since 2010 constituted a qualitative shift in the nature of international sanctions and have lowered the standard of living and well-being of Iran's population. Long-term maintenance of such “crippling sanctions” will inevitably be felt more by the people of Iran than by its leaders. Although sanctions are intended to exempt humanitarian goods and avoid harming the Iranian population, sanctions do have the potential to produce human suffering that could be morally repugnant and that could undermine international support for sanctions, hurt the United States' global image and credibility, and contribute to further alienation of the Iranian public.⁶² Some hardships are an inevitable result of sanctions cutting deeply into the economy for long periods of time. In addition, while the Treasury Department's Office of Foreign Assets Control (OFAC) does permit the export of humanitarian goods to Iran, U.S. firms are not always willing to undertake the licensing process that is required, while foreign firms and banks may hold back from any transactions with Iran for fear of U.S. penalties and the risk of a rapidly plummeting rial.⁶³ Inadvertently, a widely accepted principle of sanctions—that the availability of food and medicines should not be affected—is at risk of being violated.

6.1. Reduction in the availability of food and other basic human requirements. The most serious humanitarian impacts of the sanctions are likely to be felt by those Iranians who need and no longer have direct access to increasingly limited government assistance. As in the case of Iraq and other countries that have been the targets of strenuous and prolonged sanctions, the possibility exists that some Iranians will succumb to starvation, malnutrition, and disease. In July 2012, riots took place in the city of Nishapur over skyrocketing food prices, particularly for chicken, which is a staple of many traditional Iranian dishes.⁶⁴ Even in the formerly prosperous Iran, the human toll could be high.

Iranians are already reporting shortages of critical medicine and medical devices.⁶⁵ Increasingly, Iranians rely on unofficial channels and are vulnerable to delays, scarcity, and exorbitant prices.⁶⁶

6.2. Difficulty obtaining spare parts for passenger aircraft. The 1995 U.S. ban on trade with Iran includes an exemption for the sale of spare parts for U.S.-made civilian aircraft, several of which are in Iran's fleet. However, such sales have to go through a U.S. licensing procedure, which causes delays in needed repairs and safety-related upgrades; banking restrictions have created an additional road block to such purchases. Iran's air safety record is widely considered poor, but it is not clear if any of the recent accidents were attributable to an inability to obtain spare parts from the United States.⁶⁷

6.3. Complicating humanitarian relief donations. As the number and complexity of sanctions on Iran have increased, humanitarian relief groups have complained that it is increasingly difficult for U.S. citizens to donate to relief efforts in Iran. This concern flared up again in August 2012, following earthquakes in northwestern Iran. The outcry from relief groups prompted the OFAC to clarify how the sanctions apply to relief efforts.⁶⁸ Personal donations to individual Iranians are allowed (for example, sending relief packages or remittances), but donations to relief organizations working in Iran are still problematic because such organizations must deal with the Iranian banking system, for which they require a special Treasury Department license.⁶⁹

7. DETRIMENTAL ECONOMIC EFFECTS ON THE UNITED STATES, ITS EUROPEAN ALLIES, AND THE REGION

The sanctions now in place, including the partial oil embargo, create new international patterns of trade that are potentially detrimental to the U.S., European, and regional economies, imposing direct costs as well as opportunity costs for trade foregone. Some of the same economic penalties that were discussed earlier in this paper as Benefits of the Sanctions (because they could help pressure Iran into more serious negotiations) also could entail economic costs for the United States and others.

Evolving sanctions legislation, exemptions of various kinds, the expansion of black-market trading, and non-compliance by some parties all make it difficult to calculate the economic impacts of sanctions on the United States, the EU countries, and the Middle East—although there are indications of where significant challenges may arise. Nor was the dollar value of European and Middle East trade with Iran large in an absolute sense, prior to the imposition of strenuous sanctions. But given the faltering global

economy, some partners in the sanctions regime are now more sensitive to losses and potential losses due to sanctions. Some partners also worry that their economic sacrifices are not understood or acknowledged by the leader of the international sanctions effort, the United States.

7.1. The exclusion of U.S. and allied firms from opportunities in Iran. One obvious “opportunity cost” of sanctions is that they exclude U.S. and allied firms from potentially lucrative business opportunities in Iran.⁷⁰ As global energy companies wind down or pull out of the Iranian energy development market, in order to comply with or win an exemption from the United States’ secondary sanctions,⁷¹ they are ceding the field not only to some IRGC firms, but also to firms from China, Vietnam, Belarus, Malaysia, Ukraine, and other countries willing to ignore U.S. sanctions. Iran has welcomed investment from these companies,⁷² although most deals are said to be in preliminary stages and many of the foreign companies involved are not as technically capable as those that have withdrawn from Iran. China, in particular, stands to benefit by lining up steady supplies of Iranian oil as a result of its investments. China is now Iran’s biggest oil purchaser (although China recently has reduced its oil purchases from Iran, perhaps because of concerns about the reliability of the supply in a time of increasing sanctions), and overall, China is investing \$1 billion in Tehran’s infrastructure.⁷³ These economic relationships—some call it the “Asianization” of the Iranian economy—may have lasting negative implications for the economies of Europe, as described below.⁷⁴

7.2. Possible negative impacts on economies of European countries. The tightening sanctions on Iran could also have adverse effects on Iran’s number one trading partner, the European Union, at a time of very shaky economic recovery in Europe (and globally). Iran has been a fairly significant market for Europe, with a PPP (purchasing power parity) GDP of about \$1 trillion,⁷⁵ and the long-term loss or partial loss of this market to the West would be detrimental. While the available EU trade data (through 2011, when the comprehensive sanctions were barely a year old) do not show a significant impact of sanctions on the economies of Europe, there are worrying signs. Goods from China and India, two of the countries that have been willing to barter for oil, are taking hold in the Iranian market.⁷⁶ It may prove difficult to realign trade patterns to include the EU countries, even if sanctions are lifted.

Sanctions-related market pressures on Europe may be alleviated by the waivers issued to ten European countries that can continue to trade non-energy products with

Iran if they make “significant reductions” in their oil purchases from Iran (“significant reduction” is not defined in the legislation).⁷⁷ However, continuation of these waivers may discredit sanctions policies in the long term.⁷⁸ Some European countries have been selling to Iranian companies not banned by the UN Security Council or EU sanctions, finding loopholes or legal intermediary channels to facilitate business with Iran.⁷⁹ But many recent EU transactions with Iran have been held up due to sanctions-related complications. Some EU countries say the tightening sanctions provisions will result in a de facto total ban on EU trade with Iran.⁸⁰

Meanwhile, recent measures like the sanctioning of Iran’s Central Bank have hampered Iran’s ability to maneuver financially. The decision in March 2012 by the Society for Worldwide Interbank Financial Telecommunication, or SWIFT, to disconnect Iran from its messaging system (which facilitates transnational payments) has not crippled Iran’s ability to receive funds, but it has reduced the ease and efficiency of financial transactions with Iran. Smaller financial institutions in China, Pakistan, Malaysia, and elsewhere—which, unlike banks in Europe do not have business relations with the United States—have been able to move quickly to capitalize on Iran’s difficulties.⁸¹

7.3. Possible negative impact on economies of the Middle East. The loss of Iran’s trade may hurt the economies of the Gulf Cooperation Council countries, which had enjoyed a blossoming of trade activity with Iran before tightened sanctions took effect. Dubai, which had been central to the re-export of products to Iran, claims that sanctions have hampered its own economic recovery. Regional economic data, available through 2011, do not yet indicate a significant impact on the economies of the Middle East, perhaps because the comprehensive sanctions against Iran did not begin until 2010.⁸²

As suggested earlier, the rapid expansion of unofficial, black-market trade between Iran and Afghanistan, Iraq, Pakistan, and Turkey is a challenge to American efforts to isolate Iran economically.⁸³ But it also puts the economies of those states and the region at risk. In Afghanistan, corruption and cross-border smuggling strengthen the drug trade, and a regional black market weakens the Afghan state⁸⁴ at a time when the United States seeks to leave the country in the hands of local authorities. Additionally, thousands of Afghan workers previously employed in Iran, whose remittances bolstered the local Afghan economy, are now returning to Afghanistan without work, which is having a negative effect on border cities.⁸⁵

8. DETRIMENTAL EFFECTS ON THE GLOBAL ENERGY SUPPLY AND THE STABILITY OF THE GLOBAL ENERGY MARKET

8.1. World oil prices elevated by tensions with Iran. Iran holds the world's fourth-largest proven oil reserves (137 billion barrels of oil or 9.3% of the world's total). In 2010—the latest full year for which the Energy Information Administration has presented data—Iran was OPEC's second-largest oil producer and the world's third-largest oil exporter (after Saudi Arabia and Russia).⁸⁶

In the past, a rise in tensions between Iran and the international community (including tensions associated with the imposition of sanctions) has often produced a jump in world oil prices. Today, that volatility may be reduced somewhat, due to the relatively soft market for oil in the depressed global economies; increased energy production in the United States; and the calculation that Iran's share of the global oil market is in decline.⁸⁷ But this may not be a permanent phenomenon. Iranian threats to close or block the strategic Strait of Hormuz, through which about 35% of all sea-bound traded oil flows, have a particularly significant impact on oil prices. Oil prices escalated in late 2011 and early 2012 when Iran made such threats. Iran made a similar threat when the EU oil embargo was about to go into effect (July 1, 2012). Subsequently, some Iranian leaders (such as Foreign Minister Ali Akbar Salehi) said that Iran would not try to block the Strait or harass international shipping there. Still, world oil prices remain sensitive to such tensions, particularly given the United States' recent military build-up in the Gulf, intended to reassure Gulf states that feel threatened by Iran.

8.2. Long-term removal of Iranian supplies from the global energy market.

Even if the EU oil embargo is terminated as part of a nuclear deal, Iran's presence in the global oil market will diminish, at least over the mid-term. The departure of technologically capable international firms, together with the loss of income from oil sales, is likely to cause Iran's oil and gas fields to deteriorate. Some of these fields may be difficult to revive, and in any case, Iranian firms have proved unable to develop and maintain fields that are anywhere near as productive as those managed by international firms. Iran is struggling to maintain total oil production at 1.3 million barrels per day.⁸⁸

8.3. Iran unable to supply liquefied natural gas. Iran has the world's second-largest natural gas reserves. Sanctions are affecting Iran's ability to enter the natural gas market by preventing Iran from using any patents or accessing international expertise to develop

a capacity to export liquefied natural gas (LNG). In 2011, Iran virtually abandoned its LNG plans (although it remains a major supplier of natural gas to Turkey, through a gas pipeline).⁸⁹ Iran now uses most of its natural gas for injection into its oil fields, to enhance oil production levels.

CONCLUDING OBSERVATIONS

Our aim in this paper has been to stimulate informed debate and reflection on a key strategy—international sanctions—for addressing one of the most critical security challenges now facing this country. We have endeavored here to look at immediate and long-range impacts, direct and indirect causalities, intended and unintended consequences. We have grappled with complex questions: What are the objectives of the sanctions regime? Are international sanctions likely to help the United States and its allies achieve those objectives? At what cost, and through what mechanisms? Is there a point at which the addition of more sanctions or the inflexible application of existing sanctions might backfire or become counterproductive? How might the United States and its allies get maximum advantage from the sanctions placed on Iran, while minimizing the potential for negative consequences? As we have noted in this paper (and will address directly in future papers), the effectiveness of sanctions against Iran depends not only on the sanctions themselves, but also on the negotiating strategy associated with them.

There is disagreement on some of these points and uncertainty about the answers to some of the questions posed here. This paper offers fact-based analyses and our best professional judgments, based on careful review of a wide range of expert opinion. We hope this rigorous assessment by a bipartisan group of national security professionals will contribute to an informed public debate about the use of international sanctions against Iran.

A Primer on Sanctions Against Iran, Including Potential Future Sanctions and Provisions for Lifting the Sanctions

I. OVERVIEW OF SANCTIONS AGAINST THE ISLAMIC REPUBLIC OF IRAN

1. U.S. unilateral sanctions, 1979–1995.

During 1979–1984, sanctions against Iran were almost entirely unilateral, imposed by the United States alone. During this period, U.S. sanctions were imposed for three main purposes—to dissuade Iran from supporting militant groups in the Middle East, such as Hezbollah and Hamas; to limit Iran’s conventional military power by slowing Iran’s programs to acquire advanced conventional arms; and to restrict Iran’s ability to develop weapons of mass destruction (WMD), particularly nuclear weapons.

The main U.S. sanctions efforts during this period were:

1.1. Sanctions connected to the hostage crisis in 1979. In November 1979, President Carter issued the first of many sanctions against Iran in an Executive Order declaring that sanctions were necessary because “the situation in Iran constitutes an unusual and extraordinary threat to the national security, foreign policy and economy of the United States.”⁹⁰ Another objective was to place pressure on the new Iranian government, in an effort to change the domestic political configuration in Iran and weaken Iran’s efforts to export its revolution to regional countries. These sanctions served to curb Iran’s military capability and procurement efforts during the eight-year war with Iraq, ensuring that neither side would gain military supremacy.

1.2. Iran named state sponsor of terrorism. Iran was designated by the State Department as a state sponsor of terrorism in January 1984, after the Iran-sponsored Hezbollah movement in Lebanon bombed the U.S. Marine barracks in Beirut, on October 23, 1983, killing 241 Marines. The naming of Iran as a state sponsor of terrorism carries a wide range of penalties intended to deny Iran access to U.S. technology and other economic benefits.

The designation triggers a cutoff of any U.S. aid to Iran and any U.S. arms exports to Iran, in addition to restricting any U.S. exports to Iran that could have military or WMD applications (“dual use items”) and leading the United States to vote against international lending to Iran. The designation also triggers cuts in foreign aid to governments that provide arms or financial support to Iran, and requires the United States to cut its contributions to international programs that work in Iran. These triggers are contained in separate laws—such as the Arms Export Control Act and the Anti-Terrorism and Effective Death Penalty Act—which apply the provisions to any country on the terrorism list.

As discussed further below, the President has the authority to remove a country from the terrorism list by making required certifications to Congress, although Congress can overrule such an action if a veto-proof majority in both chambers chooses to do so.

1.3 Trade and investment ban imposed. In May 1995, the Clinton administration imposed a U.S. ban on trade with and investment in Iran, under the International Emergency Economic Powers Act (IEEPA). The action was taken after a spate of suicide bombings in Israel by the Iran-supported Palestinian Islamist groups, Hamas and Islamic Jihad, and after Iran signed a contract with Russia to complete a civilian nuclear power reactor at Bushehr. The intention of the trade ban was to deny Iran access to the large U.S. economy and thereby weaken Iran economically.

The measure, imposed by Executive Order 12957, essentially cut U.S. firms off from Iran’s economy, even going so far as to prevent U.S. energy firms from trading Iranian oil overseas. IEEPA gives the President the authority to regulate trade with any nation that the President has declared to be in a state of emergency with respect to its relations with the United States. Such a state of emergency was declared for Iran in March 1995, and the designation has been renewed every year since.

The administration issued implementing regulations pursuant to the Executive Order, and until 2010, any U.S. administration had wide latitude to amend the regulations in order to loosen the trade and investment ban as it saw fit. That was done in 1999 and 2000, to send positive signals to the pro-reform government of President Mohammad Khatami. As discussed below, the Comprehensive Iran Sanctions, Accountability, and Divestment Act has curbed the President’s discretion to unilaterally repeal or modify this trade ban through the issuance of a superseding Executive Order.

1.4. Iran–Iraq Arms Non-Proliferation Act. In 1992, the Iran–Iraq Arms Non-Proliferation Act (P.L. 102-484) was enacted following a period of Iranian acquisitions of major combat systems (tanks, combat aircraft, patrol boats, and submarines) from Russia and China. The law was intended to dissuade such arms suppliers from future sales to Iran, and thereby presumably limit Iran’s conventional military power.

The Act provides for sanctions against foreign countries and foreign firms that sell WMD or “destabilizing numbers and types” of advanced conventional arms to Iran. One weakness in this law, noted by experts, is that it did not contain a definition of what constitutes “destabilizing numbers and types.” This gives the President broad discretion to implement the act—or to refrain from imposing any sanctions under it—because the administration can decide what types of transactions meet that definition.

2. U.S. secondary sanctions to compel allies to isolate Iran: 1996–2006.

In 1996, Congress and the administration concluded that previous U.S. sanctions had failed to achieve any significant alteration in Iranian international behavior or any significant reduction

of its strategic capabilities. In part, this was because U.S. allies had not joined the U.S. trade and investment embargo on Iran. Because of this, Congress and the administration moved to try to force European and other energy companies to choose between doing business in the United States or doing business in Iran. Washington's efforts to increase pressure and sanctions on Tehran during this period coincided, paradoxically, with the presidency of the reform-minded Mohammad Khatami. Under Khatami's leadership, shifts in Iranian domestic and foreign policy softened the image of the Iranian government, presenting a challenge to Washington's efforts to attract international support for isolating and weakening Iran.

2.1. The Iran Sanctions Act. In August 1996, as Iran began to open up its oil and gas fields to foreign investment, a major sanctions law, the Iran Sanctions Act (P.L. 104-172), was adopted. It provides for sanctions against foreign energy firms that are determined by the President to have invested more than \$20 million to develop Iran's oil and gas fields.⁹¹ The intention of the Iran Sanctions Act was to try to reduce Iran's oil and gas production potential and thereby deny Iran the oil revenue with which it was funding regional militant groups and developing its strategic capabilities. However, as most observers noted, even if the Iran Sanctions Act did deter foreign investment in Iran's energy sector, any decline in Iran's oil production and revenues would occur over a long time frame, and have little immediate impact on Iran's capabilities.

As discussed below, the Iran Sanctions Act identifies specific criteria that Iran must meet, and that the President must certify as met, to trigger termination of the act. The provisions of the act also give the administration some discretion to determine violations, and on that basis, to cease applying actual penalties.

2.2. Executive Orders 13224 and 13382. These Executive Orders were issued in September 2001 (immediately after the September 11 attacks) and June 2005, respectively. Executive Order 13224 blocks the U.S.-based assets of and prevents U.S. persons from transacting business with entities determined to have provided support for acts of terrorism. Executive Order 13382 carries the same penalties for entities determined to provide support for WMD proliferation.

These Executive Orders did not target Iran specifically, and in fact Executive Order 13224 was primarily intended to reduce Al Qaeda's ability to finance its operations. However, in recent years, numerous Iranian entities have been designated by the Treasury Department as sanctioned under these Orders—with the intention of shutting down entities that Iran uses to support militant movements and to procure technology that it can use in its nuclear program. As major examples, the Islamic Revolutionary Guard Corps (IRGC) has been designated a proliferation entity under E.O. 13382, and the IRGC Qods Force—the IRGC unit that supplies Iran's protégé movements such as Hezbollah—has been designated a terrorism supporting entity under E.O. 13224.

The President has the discretion to repeal outright or amend these Executive Orders, and to remove designated entities from the list of sanctioned entities.

3. UN Sanctions to persuade Iran to negotiate seriously: 2006–2010.

In 2002, the issue of Iran's nuclear program rose to prominence, with the revelation that Iran was constructing several nuclear facilities, including those capable of enriching uranium. In 2003, three European countries (the EU3: Britain, France, and Germany) initiated a separate negotiating track to try to persuade Iran to permanently end uranium enrichment. The negotiations led Iran to suspend uranium enrichment in 2003 and then, after a more specific interim agreement, during 2004–2005. Iran's decision to suspend enrichment constituted a breakthrough in nuclear negotiations that also saw Iran sign the Additional Protocol to the Nuclear Non-Proliferation Treaty (NPT)—in effect permitting much greater inspection of Iran's nuclear and military sites by the International Atomic Energy Agency (IAEA). Iran made this move in expectation that the European negotiating position ultimately would allow Iran's nuclear program to go forward, including the enrichment of uranium to a low level (3.5–5%). The EU3 proposal that was approved by the United States did not satisfy Iran's expectations.

This failure led the Iranian government to conclude, in August 2005, that voluntary suspension had not achieved the objective of leading the EU3 and the United States to recognize Iran's "right to enrichment" as a signatory of the NPT, and would not lead to Iran's reintegration into the international community. This was the context in which Mahmoud Ahmadinejad took office as Iran's president and adopted a confrontational strategy regarding nuclear diplomacy. Iran recommenced its enrichment activities. Subsequently, in late 2005–early 2006, the United States and its allies decided that international sanctions might be needed to induce Iran to end enrichment, and the issue of Iran's nuclear program was referred by the IAEA to the United Nations Security Council.

3.1. During 2006–2010, three UN Security Council Resolutions (1737, 1747, and 1803) imposed targeted sanctions on Iran, prohibiting UN member states from selling Iran any equipment or goods that it could use to develop its nuclear or missile programs. This approach attracted the support of Russia and China—the two main skeptics of sanctions aimed at Iran's civilian economy among the permanent five Security Council members.

Repeal or alteration of the provisions of the UN resolutions would require Security Council passage of resolutions that supersede or amend those resolutions.

4. Oil export-related multilateral sanctions to force Iran to negotiate seriously on its nuclear program: 2010–2012.

During 2010–2012, the United States and its allies perceived that the international sanctions adopted prior to 2010 had not slowed Iran's capacity to enrich uranium, or persuaded Iran to reach agreement with a six-country contact group ("P5+1"—the United States, Britain, France, Germany, Russia, and China) to suspend enrichment outright. The United States, supported by its close allies, began pushing for sanctions that could inflict harm on Iran's civilian economy and more effectively pressure Iran's leaders into a nuclear deal.

4.1 UN Security Council Resolution 1929. On May 17, 2010, the leaders of Brazil and Turkey announced that they had brokered a deal with Tehran—called the Tehran Declaration—that reflected a proposal which has been circulated in various forms since the fall of 2009. It would have allowed Iran to export its low enriched uranium (LEU, enriched to the level of 3.5–5%) and, in return, receive medium enriched uranium (enriched to 20%) in the form of fuel plates for the Tehran Research Reactor, which Iran claims is used for the production of isotopes for medical purposes. The Brazilian and Turkish governments believed their initiative had received the backing of President Obama, who in an April 20 letter to the leaders of the two countries stated that the agreement “would build confidence and reduce regional tensions by substantially reducing Iran’s low-enriched uranium stockpile.”⁹²

When Brazil and Turkey announced their agreement with Iran in the Tehran Declaration, it seemed to come as a surprise to the U.S. government. Washington decided to move quickly to press ahead with a UN Security Council Resolution (1929) that gave broad authority to those UN member states that wanted to ban their companies from working in Iran’s energy industry, providing shipping insurance and trade credits, or conducting financial transactions with Iran’s banks. The U.S. explained its decision by alleging that Iran was making its offer to put off passage of the resolution, which had just received the necessary support from Russia and China, which signed on because the resolution did not mandate such steps.

4.2 CISADA Law. The United States and its close allies chose to use all the authorities granted by Resolution 1929, while Russia, China, and several other countries insisted on complying only with the mandatory provisions of the resolution. The United States went a few steps further in July 2010, when it signed into law the Comprehensive Iran Sanctions, Accountability, and Divestment Act (CISADA), which sanctioned foreign firms that sell gasoline to Iran and banned foreign banks from doing business in the United States if those banks conduct transactions with blacklisted Iranian banks.

As mentioned above, CISADA wrote into law—with only limited exceptions for trade in humanitarian goods or goods the exportation of which to Iran is deemed important to U.S. national interests—a trade and investment ban that had been imposed in 1995 by Executive Order 12957.⁹³ This had the net effect of limiting the President’s ability to unilaterally alter the terms of the trade ban through new regulations or Executive Orders.

An outright repeal of CISADA would require congressional action (and Presidential concurrence) to that effect. However, as is the case of the Iran Sanctions Act, most CISADA provisions give the President discretion to determine violations, and to consider foreign firms not to be in violation, if the President decides on that course of action.

4.3 Sanctions against Iranian human rights abusers. During 2010–2012, the administration and Congress sought to highlight and punish efforts by the Iranian regime to repress its domestic opposition. This was an effort to show U.S. support for the goals of the Iranian opposition, which conducted an uprising during June–December 2009 that was sparked by

perceived fraud in the re-election of President Ahmadinejad. The regime suppressed the uprising with force as well as arrests and monitoring of social media and other internet communication tools used by the opposition. Sanctions were intended to “name and shame” Iranian officials responsible for the crackdown on the opposition “Green Movement” that emerged from the protests, and to deter foreign firms from providing technology for Iran’s Internet-monitoring activity.

On September 28, 2010, using his IEEPA authority (see above), President Obama issued Executive Order 13553, blocking U.S.-based assets of Iranian officials determined to have committed human rights abuses against Iranian citizens or to have provided technology or other material support for such abuses. The Order also bars the entry of such officials into the United States. At the time this Executive Order was issued, many questioned its effectiveness in that Iranian officials likely to be sanctioned under the Order almost certainly have no U.S.-based assets to impound, and would likely not seek admission to the United States. The President has ample discretion to determine violations under this order or to repeal the Executive Order outright.

The CISADA law, mentioned above, contains provisions to sanction foreign firms determined by the administration to have helped Iran monitor or censor the Internet. CISADA bars such firms from receiving U.S. government contracts. CISADA itself can be repealed by congressional action, but the President has discretion to implement this provision based on his authority to determine if and when violations have occurred.

4.4. U.S. sanctions on Iran Central Bank. In late 2011, many in Congress expressed growing frustration that sanctions had not compelled Iran to comply with UN resolutions demanding that it cease enriching uranium. Many in Congress believed that sanctions targeting Iran’s vital oil exports were needed to compel Iran to compromise. In December 2011, despite initial administration hesitancy to support that strategy—which could raise oil prices or harm U.S. allies economically—Congress enacted a law (a provision of the FY2012 National Defense Authorization Act) that would bar from the United States foreign banks that conduct transactions with Iran’s Central Bank. This provision squarely targeted Iran’s oil revenues because it is through Iran’s Central Bank that oil buyers pay Iran in hard currency for Iranian oil. The President decided to sign this bill into law because, as discussed below, European countries were themselves expressing growing interest in joining the United States in efforts to pressure Iran’s oil export sector. This law allows for an exemption from sanctions of companies from countries that “significantly reduce” purchases of oil from Iran.

Although congressional action would be required to repeal this law outright, the President has substantial discretion on implementation. It is the administration that negotiates with foreign countries to determine their eligibility for an exemption, and the administration which determines whether a country has “significantly reduced” oil purchases from Iran.

4.5. July 1, 2012, EU embargo on oil. In late 2011, with no evidence of Iranian flexibility on its nuclear program, U.S. allies in Europe appeared to be increasingly willing to help the United States try to force Iran to bargain seriously. In January 2012, the European Union took a major step toward that goal by imposing an embargo on the purchase of Iranian oil, to take full effect on July 1, 2012. The EU oil embargo had been under consideration since November 2011, when a government-backed Iranian mob sacked British diplomatic property in Tehran in response to Britain's ban on financial transactions with Iran's Central Bank. In imposing the embargo, the EU, with one action, reduced Iran's oil exports by about 25%—an amount sufficient to potentially cripple Iran's economy, which remains overwhelmingly dependent on oil revenue (about 70% of the government budget is from oil revenue).⁹⁴

The EU oil embargo represents an action by sovereign countries not under U.S. jurisdiction. The administration can potentially use its diplomatic influence on the EU to encourage the lifting of this embargo, but the decision to do so is outside of U.S. control. On the other hand, the administration can potentially dissuade the EU from lifting the embargo by threatening to revoke the exemptions (ten EU countries have received such exemptions) under the Central Bank sanctions law discussed above.

4.6. Executive Order 13622 (July 30, 2012): Barring purchase of Iranian crude oil and petrochemical products. On July 30, 2012, President Obama issued Executive Order 13622 that applies virtually all of the ISA sanctions—as well as restrictions on foreign banks—to entities that the President determines have:

- purchased oil or other petroleum products from Iran;
- conducted transactions with the National Iranian Oil Company (NIOC) or Naftiran Intertrade Company (NICO); or
- purchased petrochemical products from Iran.

The sanctions do not apply if the parent country of the entity conducting these transactions has received an exemption under Section 1245 of the P.L. 112-81 (an exemption earned for “significantly reducing” oil purchases from Iran). The Executive Order blocks the use of U.S.-based property to provide financial support to NIOC, NICO, the Central Bank or Iran, and prohibits U.S.-based entities from helping Iranians to purchase U.S. bank notes or precious metals. This Executive Order could be revoked or amended at the President's discretion.

4.7. H.R. 1905: Iran Threat Reduction and Syria Human Rights Act of 2012.

A House–Senate agreement on a major Iran sanctions bill, H.R. 1905, passed by both chambers of Congress on August 1, 2012, adds several triggers for sanctions under the Iran Sanctions Act. The bill primarily amends ISA and CISADA, and unwinding its provisions would require congressional action to repeal or amend H.R. 1905, or administration certification, as discussed above, that ISA shall be terminated with respect to Iran. The triggers for sanctionability under ISA added by H.R. 1905 include:

- Ownership of a vessel that is used to transport Iranian crude oil. This sanction does not apply in cases of transporting oil to countries that have received exemptions under the Central Bank sanctions discussed above.
- Providing insurance or re-insurance for the National Iranian Oil Company (NIOC) or the National Iranian Tanker Company (NITC).
- Participation in a joint oil and gas development venture with Iran, outside Iran, if that venture was established after January 1, 2002. The effective date appeared intended to carve out an exemption for energy ventures in the Caspian Sea, such as the Shah Deniz oil field there.
- Participation in a joint venture with Iran relating to the mining, production, or transportation of uranium.
- Purchasing or facilitating the issuance of sovereign debt of the government of Iran, including Iranian government bonds.

This law can only be revoked or amended by congressional action, although, as was discussed in the case of the Iran Sanctions Act and CISADA, the administration still has substantial discretion on how to implement its provisions because it is empowered to make determinations about sanctions violations.

5. Potential future sanctions.

Although there is no comprehensive roadmap for future U.S. and international sanctions against Iran, any new sanctions would add another layer of complexity to the sanctions regime. Future sanctions could contribute both to the benefits and to the costs of a sanctions strategy (for example, impending sanctions could serve as a bargaining chip in negotiations, or create increased discord within the coalition of sanctioning nations). The following sanctions may be considered by the United States and the European Union as incremental additions to sanctions already in place. They have yet to gain enough political support to be adopted.

5.1. Future sanctions being considered by the United States: Some U.S. policymakers are currently exploring legislation to ban from the U.S. market all foreign banks that do business with any Iranian bank (current sanctions bar foreign banks that do business with several already sanctioned Iranian banks).⁹⁵ Some policymakers seem interested in the possibility of eliminating current “exemptions,” whereby countries that reduce their oil purchases from Iran can still conduct business with Iran's Central Bank. In effect, this would represent a unilateral U.S. effort to prevent all purchases of Iranian oil worldwide.⁹⁶ It is not clear whether a bill calling for such a dramatic escalation of U.S. sanctions would attract enough political support to pass, but a new sanctions package of some kind is likely to be proposed in Congress in early 2013.

5.2. Future sanctions being considered by the European Union: On October 15, 2012, the EU imposed a ban on any imports of natural gas from Iran, as well as on the sale

to Iran of any metals or graphites needed for making steel.⁹⁷ This is said to have been part of a broader proposal to create an “Iran-Oil-Free Zone” that would also have banned foreign refineries from mixing Iranian crude oil with oil from elsewhere.⁹⁸ If implemented, this ban would drive down the price of Iran’s oil without affecting global oil prices. The EU is also considering preventing Iran Air from flying to any European Union country and preventing Iran from using foreign flags for their ships (which would have a large impact on Iran’s commercial shipping). Additionally, the EU is considering a ban on “U-turn” banking transactions with Iran that begin and end with EU banks. Finally, the EU has added 34 Iranian companies and institutions to a list of entities facing asset freezes. The EU has already provisionally approved these and other new sanctions, which are intended to further hamstring Iran’s nuclear program and punish the “uncompromising stance that Iran took in diplomatic talks.”⁹⁹

5.3 Possible future multilateral sanctions. Other sanctions that have not yet been proposed may be considered if the political situation seems to demand intensified pressure. For example, a broader coalition of states could consider closing their embassies in Tehran, or banning all passenger flights to and from Iran.¹⁰⁰ Sanctions barring Iran from all international sporting events might be considered, although there is considerable reluctance to take this step. Additionally, decision makers may consider a compulsory worldwide ban on the export of all refined oil products and energy equipment and services to Iran, as well as on any investment in Iran’s energy sector. Another approach could be to limit lending to Iran from *all* international financial institutions, banning trade financing and insurance (UNSC resolution 1747 calls for restraint with respect to these measures, but leaders could decide on an all-out ban). Restricting operations of, and insurance for, Iranian shipping is also a possibility, as is a worldwide ban on all sales of arms to Iran (not only major weapons systems, but all lethal equipment).¹⁰¹

II. LIFTING THE SANCTIONS

Neither the United States nor the UN Security Council has, up to now, stipulated the precise criteria that Iran must meet to trigger the lifting of sanctions or the sanctions that would be lifted in exchange for Iran’s actions. There is no action-for-action plan. These matters will need to be addressed if the United States seeks to establish a sound basis for negotiations. In 2011–2012, Tehran has indicated a willingness to settle some key issues such as cessation of enrichment to 20% and increased access by the IAEA to Iran’s nuclear program; but as a partial precondition, Tehran has insisted on a relaxation of sanctions in addition to recognition of Iran’s right to uranium enrichment for peaceful purposes.

In view of the difficulty the United States is likely to face in lifting sanctions progressively as part of reaching negotiated agreements with Iran, the United States will need to plan with its allies how to unwind the numerous overlapping sanctions, in the event Iran does meet international demands on the nuclear issue and on its foreign policy behavior more generally. The process of unwinding the sanctions will be complicated because of the political capital spent

by many different governments in building the Iran sanctions regime and because of the political commitment a majority of the members of the U.S. Congress has to maintaining the sanctions.

The process of unwinding some of the sanctions will be difficult but certainly not impossible, as was shown eventually in the case of U.S. sanctions against Libya, many of which were progressively lifted over time. That said, the sanctions regime against Iran is of much longer duration and involves much greater political investment by more individuals than the regime of sanctions against Libya.

We outline here what would be necessary for lifting, suspending, or not applying the sanctions.

1. Discretion on presidential application and authority to issue waivers.

The American President generally has a high degree of discretion to reduce sanctions on any country, including Iran. However, because of the large number of U.S. sanctions against Iran that have been enacted into law, the President’s discretion is more limited than in the case of other nations. Still, even for those cases in which laws circumscribe the President’s authority, the President has substantial discretion to implement the law in ways that reduce the effects of sanctions on Iran, were there to be a U.S. decision to ease sanctions against Iran. And some of the sanctions laws enacted against Iran, particularly the Iran Sanctions Act, as discussed below, stipulate criteria the President can use to determine whether to cease applying that law with respect to Iran. Yet realistically, given the politics of U.S. relations with Iran, any President would likely face significant challenges at the onset of seeking sanctions relief.

1.1. Authority under IEEPA/Executive Orders. Any sanction imposed solely by Executive Order, issued under the authority of IEEPA, can be lifted by an Executive Order repealing or altering the original order. If there were a decision to do so, the President could choose to eliminate all the sanctions imposed on Iran by Executive Order, by stating that the state of emergency between the United States and Iran has terminated.

1.2 Administration discretion in determination. In many cases, the President has discretion whether to trigger a sanction through his power, written into many Iran sanctions laws, to determine whether a foreign firm has committed a sanctions violation or not. For example, all the Iranian entities sanctioned under Executive Order 13224 and 13382 could have their sanctions removed by the President, were there a decision to do so. And many U.S. sanctions do not mandate a timeframe for the administration to make determinations on the appropriateness of applying sanctions. Therefore, the administration is not compelled, by law, to impose sanctions in these cases.

1.3 Waiver authority. Iran sanctions laws have in theory substantial waiver provisions that would enable a President to waive application of some sanctions in the national interest.

A President could assert, on national interest or national security grounds, that a verifiable agreement on Iran's nuclear program justifies waiving sanctions in specific cases. All provisions of the Iran Sanctions Act, and the provisions sanctioning transactions with Iran's Central Bank, contain waivers that a President could use.

2. Termination of the Iran Sanctions Act.

The Iran Sanctions Act is a centerpiece of the U.S. sanctions regime. This act does lay out specific criteria Iran must meet in order for the act to terminate. The Iran Sanctions Act terminates if the President certifies that Iran has met all of the following benchmarks: 1) has ceased efforts to design, develop, or acquire a nuclear explosive device, chemical/biological weapons, and ballistic missile technology; 2) has been removed from the U.S. list of state sponsors of terrorism; and 3) poses no significant threat to U.S. national security interests or allies.

If there were a decision to do so, the President has the authority to make these certifications and to cease applying this law with respect to Iran. The George W. Bush administration used the criteria in this law to cease applying it with respect to Libya, after Libya turned over its WMD technology to the United States in 2004. (The law at that time was entitled the Iran and Libya Sanctions Act, and all provisions applied to Iran as well as Libya. It was subsequently retitled to the Iran Sanctions Act when its application to Libya ended.). A certification by the President to cease applying provisions of this law would likely face strong opposition from the U.S. Congress, which would limit such action politically if not legally.

3. Termination of the State Sponsorship of Terrorism Designation.

Many of the U.S. sanctions imposed on Iran were put in place because of Iran's designation as a state sponsor of terrorism. The President has authority to remove a country from the terrorism list, subject to congressional approval. To remove Iran from the terrorism list, the President must certify to Congress that Iran 1) has not provided support for acts of terrorism within the preceding six months; and 2) has assured the United States it will not support acts of terrorism in the future. Congress can try to block such a move by enacting a joint resolution of opposition, but the President can veto that joint resolution—meaning that Congress would require a two-thirds majority in both chambers to override the veto and keep Iran on the terrorism list.

3.1 Waiting period. Were the President to decide to take Iran off the terrorism list, he would be required to notify Congress 45 days in advance of such a move—a waiting period required in cases where there is no change of regime in the terrorism list state.

3.2 Relevant past experiences. According to the provisions of the Export Administration Act that established the terrorism list, a country's designation is supposed to hinge only on terrorism issues, and not other issues such as its nuclear program or other aspects of that country's foreign policy.

However, it should be noted that North Korea was taken off the terrorism list in 2008 in exchange for cooperation on its nuclear program, and not for any steps North Korea took with regard to supporting terrorist activity. In 1982, Iraq was taken off the terrorism list after offering only minor concessions on terrorism—expelling Abu Nidal. It is widely assessed that Iraq was removed primarily as an expression of U.S. support in the Iran–Iraq war. In 2006, Libya was removed from the list because it gave up its weapons of mass destruction programs in 2004. It is conceivable that Iran could be removed from the terrorism list as a consequence of an agreement with the P5+1 on nuclear issues, but it is our estimate that Iran would have to offer major, verifiable concessions on the terrorism issue itself—such as cessation of support for Hezbollah—before a U.S. president would remove Iran from the list.

4. Termination of the U.S. Trade Ban.

The ban on U.S. trade and investment with Iran was first imposed by Executive Order. The order was imposed under the powers granted the President under the International Emergency Economic Powers Act, pursuant to a Presidential declaration that a state of emergency exists between the United States and the country in question. In the case of Iran, such a declaration was issued in March 1995 and has been issued every year since, thus keeping the trade and investment ban in place.

4.1. CISADA codifies the trade ban. The CISADA law codified the ban on trade with Iran. Therefore, the President can no longer unilaterally end or amend the trade ban simply by issuing a new Executive Order to that effect, or ending the state of emergency between the United States and Iran. Congress would need to repeal or substantially amend the CISADA provision in order to place full authority for the trade ban back in the hands of the President.

4.2. Administration repeal. If CISADA were so amended, and the President were to decide to restore full U.S.–Iran trade, the President could declare that the state of emergency with Iran no longer exists. However, the President would have to justify such a certification by citing a significant change in Iran's international behavior. Or the President could repeal the trade and investment ban outright, by issuing a new Executive Order to that effect. ■

SUMMARY OF SANCTIONS AGAINST IRAN, 1979 – PRESENT*

* NOTE: This chart is a highly simplified representation of the complex sanctions matrix. It is intended as a quick reference tool and is by no means comprehensive.

Source	Date	UNSC#/US Law/ Exec Order #	Lift Requirement	Action	Objective
US Carter	11/14/1979	Executive Order 12170	Executive Order	Blocking Iranian government property.	Pressure Iran to free American diplomatic hostages.
US Carter	1/23/1981	Executive Order 12277	Executive Order	On to transfer Iranian government assets.	
US Carter	1/23/1981	Executive Order 12276	Executive Order	Direction relating to establishment of escrow accounts.	
US Carter	1/23/1981	Executive Order 12278	Executive Order	Direction to transfer Iranian assets overseas.	
US Carter	1/23/1981	Executive Order 12279	Executive Order	Direction to transfer Iranian government assets held by domestic banks.	
US Carter	1/23/1981	Executive Order 12278	Executive Order	Direction to transfer Iranian government assets overseas.	
US Carter	1/23/1981	Executive Order 12280	Executive Order	Direction to transfer Iranian government financial assets held by non-banking institutions.	
US Carter	1/23/1981	Executive Order 12281	Executive Order	Direction to transfer certain Iranian government assets.	
US Carter	1/23/1981	Executive Order 12283	Executive Order	Non-prosecution of claims of hostages and for actions at the United States Embassy and elsewhere.	
US Carter	1/23/1981	Executive Order 12284	Executive Order	Restrictions on the transfer of property of the shah of Iran.	*Note: This group of Executive Orders on 1/23/81 and 2/26/81 are result of the Algiers Accord and negotiations to free hostages. Some not included here were implemented and revoked during this period.
US Carter	2/26/1981	Executive Order 12294	Executive Order	Suspension of litigation against Iran.	
US Dept. of State	1/19/1984	Iran added to State Sponsors of Terrorism List	Presidential authority, subject to congressional approval. If Congress blocks with a joint resolution, President can veto.	Restrictions on U.S. foreign assistance; a ban on defense exports and sales; certain controls over exports of dual use items; and miscellaneous financial and other restrictions.	Limit Iran's military capability and constrain Iran's support of terrorism, weaken its efforts to export the revolution to regional countries.
US Reagan	10/29/1987	Executive Order 12613	Executive Order	Prohibiting imports from Iran.	Limit Iran's military capability and punish military actions, constrain Iran's financial support of terrorism organizations, limit Iran's regional influence.

SUMMARY OF SANCTIONS AGAINST IRAN, 1979 – PRESENT*

* NOTE: This chart is a highly simplified representation of the complex sanctions matrix. It is intended as a quick reference tool and is by no means comprehensive.

Source	Date	UNSC#/US Law/ Exec Order #	Lift Requirement	Action	Objective
US Bush	10/23/1992	Iran-Iraq Arms Nonproliferation Act (P.L. 102-484)	Presidential discretion to implement or to refrain from imposing sanctions under it. Congressional action to terminate.	Oppose any transfer to Iran or Iraq of any goods or technology, including dual-use goods or technology, wherever that transfer could materially contribute to either country's acquiring chemical, biological, nuclear, or destabilizing numbers and types of advanced conventional weapons.	Limit Iran's conventional military power by dissuading such arms suppliers (Russia, China) from future sales to Iran, limit Iran's regional influence.
US Clinton	3/15/1995	Executive Order 12957	Superceded by CISDA. Congressional repeal or substantial amendment to the CISADA provision in order to place full authority back in the hands of the President.	Prohibiting Certain Transactions With Respect to the Development of Iranian Petroleum Resources.	Force Iran to change domestic policies, pressure to end support for terrorism, weaken its influence regionally.
US Clinton	5/6/1995	Executive Order 12959	Executive Order	Prohibiting Certain Transactions With Respect to the Development of Iranian Petroleum Resources.	Strengthen Executive Order 12957.
US Clinton	8/5/1996	Iran Sanctions Act (P.L. 104-172)	Congressional action and Presidential concurrence. Or, president can waive application of Act.	To impose sanctions on persons making certain investments directly and significantly contributing to the enhancement of the ability of Iran to develop its petroleum resources.	Reduce Iran's oil and gas production potential to limit Iran's funding to regional militant groups and developing its strategic capacity.
US Clinton	8/19/1997	Executive Order 13059	Executive Order	Prohibiting Certain Transactions With Respect to Iran.	Strengthen Executive Order 12957.
US Clinton	3/14/2000	Iran Nonproliferation Act	Congressional repeal or substantial amendment to the CISADA provision in order to place full authority back in the hands of the President.	Sanctions against entities that are determined to be involved in or supplying Iran's WMD programs, incl. asset freezing, ban on transaction with the entity.	Pressure international entities (Russia, specifically) for aiding Iran in nuclear proliferation and development of missile delivery systems.
US Bush	9/30/2001	Executive Order 13224/ISA Extension Act of 2001	Congressional action and Presidential concurrence. Or, president can waive application of Act.	Blocking property and prohibiting transactions with persons who commit, threaten to commit, or support terrorism.	Prevent any U.S. citizen from conducting business transactions with entities (including Iran) that have been judged to provide support for terrorist organizations.
US Bush	6/28/2005	Executive Order 13382	Executive Order	Blocking property of weapons of mass destruction proliferators and their supporters, includes restrictions on Iranian shipping.	Halt Iranian nuclear proliferation and development of missile delivery systems.

SUMMARY OF SANCTIONS AGAINST IRAN, 1979 – PRESENT*

* NOTE: This chart is a highly simplified representation of the complex sanctions matrix. It is intended as a quick reference tool and is by no means comprehensive.

Source	Date	UNSC#/US Law/ Exec Order #	Lift Requirement	Action	Objective
US Bush	9/30/2006	Iran Freedom Support Act (ILSA) (P.L. 109-293)	Congressional action and Presidential concurrence. The act “codifies” EO 12957, 12959, 13059 into law.	Codifies sanctions against Iran, bans investment in Iran (amends ISA), provides financial and political assistance for democracy promotion, sanctions against countries assisting Iran in nuclear proliferation and advanced weapons development, prevention of money laundering for weapons of mass destruction.	Force Iran to change domestic policies, punish Iran for support of terrorism, support domestic and foreign pro-democracy groups.
UN	7/31/2006	Security Council Resolution 1696	UN Resolution	Demands Iran suspend uranium enrichment, or face possible economic, diplomatic sanctions.	Persuade Iran to cease nuclear proliferation..
UN	12/27/2006	Security Council Resolution 1737	UN Resolution	Imposes sanctions on Iran for failure to halt uranium enrichment.	Persuade Iran to cease uranium enrichment, permit expanded inspection of nuclear facilities by the IAEA and to reach a negotiated agreement on its nuclear program.
UN	3/24/2007	Security Council Resolution 1747	UN Resolution	Toughens sanctions against Iran, adds arms embargo.	Persuade Iran to cease uranium enrichment, permit expanded inspection of nuclear facilities by the IAEA and to reach a negotiated agreement on its nuclear program.
US Bush	7/7/2007	Executive Order 13438	Executive Order	Blocking property of certain persons who threaten stabilization efforts in Iraq.	Punish Iran’s attempts to exert influence regionally.
UN	3/3/2008	Security Council Resolution 1803	UN Resolution	Tightens restrictions on Iran’s proliferation-sensitive nuclear activities, increases vigilance over Iranian banks, has states inspect cargo.	Persuade Iran to cease uranium enrichment, permit expanded inspection of nuclear facilities by the IAEA and to reach a negotiated agreement on its nuclear program.
UN	9/27/2008	Security Council Resolution 1835	UN Resolution	Reaffirms earlier resolutions on Iranian uranium enrichment.	Persuade Iran to cease uranium enrichment, permit expanded inspection of nuclear facilities by the IAEA and to reach a negotiated agreement on its nuclear program.
UN	6/9/2010	Security Council Resolution 1929	UN Resolution	Expands an arms embargo and tightening restrictions on financial and shipping enterprises related to “proliferation-sensitive activities.”	Pressure Iran’s civilian economy to persuade leaders to permanently to cease uranium enrichment, permit expanded inspection of nuclear facilities by the IAEA and to reach a negotiated agreement on its nuclear program.

SUMMARY OF SANCTIONS AGAINST IRAN, 1979 – PRESENT*

* NOTE: This chart is a highly simplified representation of the complex sanctions matrix. It is intended as a quick reference tool and is by no means comprehensive.

Source	Date	UNSC#/US Law/ Exec Order #	Lift Requirement	Action	Objective
US Obama	7/1/2010	Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010 (CISADA, P.L. 111-195)	Congressional action and Presidential concurrence. President discretion to determine violations, and to consider foreign firms not in violation.	Expansion of sanctions under the Iran Sanctions Act of 1996, mandatory sanctions with respect to financial institutions, imposition of sanctions on certain persons who are responsible for or complicit in human rights abuses, prohibition on procurement contracts with persons that export sensitive technology to Iran, harmonization of criminal penalties for violations of sanctions, increased capacity for efforts to combat unlawful or terrorist financing, sanctions on firms that conduct any type of transaction with/in Iran's energy sector.	Pressure Iran to change Iranian domestic policies, build a foundation for future multilateral sanctions, pressure Iran to permanently cease development of nuclear weapons and support of terrorism, pro-democracy groups.
US Obama	9/28/2010	Executive Order 13553	Executive Order	Blocking property of certain persons with respect to serious human rights abuses by the government of Iran and taking certain other actions	Highlight and punish Iranian government's human rights abuses, support opposition groups and civil liberties, pressure Iran to change domestic policies or encourage regime change, permanently to cease uranium enrichment and to reach a negotiated agreement on its nuclear program.
US Obama	12/31/11	FY2012 National Defense Authorization Act (NDAA, P.L. 112-81)	Congressional action and Presidential concurrence. President discretion to determine violations, and to consider foreign firms not in violation.	Blocking property of certain persons with respect to serious human rights abuses by the government of Iran, provisions to sanction foreign banks that deal with Iran's Central Bank, etc.	Compel Iran to compromise on its nuclear program.
US Obama	4/29/2011	Executive Order 13572	Executive Order	Blocking property of certain persons with respect to human rights abuses in Syria	Punish Iran's attempts to exert influence regionally and for supporting Assad government in Syria.
US Obama	5/23/2011	Executive Order 13574	Executive Order	Authorizing the implementation of certain sanctions set forth in the Iran Sanctions Act of 1996, as amended.	Strengthen CISADA, compel Iran to permanently cease nuclear proliferation and to reach a negotiated agreement on its nuclear program.
US Obama	11/20/2011	Executive Order 13590	Executive Order	Authorizing the imposition of certain sanctions with respect to the provision of goods, services, technology, or support for Iran's energy and petrochemical sectors.	Strengthen CISADA, compel Iran to permanently cease nuclear proliferation and to reach a negotiated agreement on its nuclear program.

SUMMARY OF SANCTIONS AGAINST IRAN, 1979 – PRESENT*

* NOTE: This chart is a highly simplified representation of the complex sanctions matrix. It is intended as a quick reference tool and is by no means comprehensive.

Source	Date	UNSC#/US Law/ Exec Order #	Lift Requirement	Action	Objective
US Obama	7/30/2012	Executive Order 13622	Executive Order	Authorizing additional sanctions with respect to Iran.	Target Iran's oil revenues, compel to permanently cease nuclear proliferation and to reach a negotiated agreement on its nuclear program.
US Obama	8/1/2012	Iran Threat Reduction and Syria Human Rights Act of 2012 (H.R. 1905 (P.L. 112-158)	Congressional action to repeal or amend, or Administration certification. President discretion to determine violations, and to consider foreign firms not in violation.	Expansion of multilateral sanctions regime with respect to Iran, expansion of sanctions relating to the energy sector of Iran and proliferation of weapons of mass destruction by Iran, sanctions with respect to Iran's revolutionary guard corps, measures relating to human rights abuses in Iran, sanctions with respect to human rights abuses in Syria.	Highlight and punish Iranian government's human rights abuses, support opposition groups and civil liberties, pressure Iran to change domestic policies or encourage regime change, punish Iran for supporting Assad government in Syria.
US Obama	2/5/2012	Executive Order 13599	Executive Order	Blocking property of the government of Iran and Iranian financial institutions.	Target Iran's overall economy, compel to permanently cease nuclear proliferation and to reach a negotiated agreement on its nuclear program.
US Obama	4/23/2012	Executive Order 13606	Congressional action and Presidential concurrence. EO codified Iran Threat Reduction and Syria Human Rights Act (P.L. 112-158) into law.	Blocking the property and suspending entry into the United States of certain persons with respect to grave human rights abuses by the governments of Iran and Syria via information technology.	Punish Iranian government's human rights abuses in regard to information technology, support pro-democracy groups.
US Obama	10/9/2012	Executive Order 13628	Executive Order	Authorizing the implementation of certain sanctions set forth in the Iran Threat Reduction and Syria Human Rights Act of 2012 and additional sanctions with respect to Iran.	Implements provisions contained in the Iran Threat Reduction and Syria Human Rights Act of 2012. Highlight and punish Iranian government's human rights abuses, support pro-democracy groups and civil liberties, pressure Iran to change domestic policies, punish Iran for supporting Assad government in Syria.

Endnotes

¹ For a detailed analysis of U.S. and international sanctions on Iran, see Kenneth Katzman, *Iran Sanctions Act*, Congressional Research Service Report for Congress RS20871, Oct. 2007, <http://www.fas.org/sgp/crs/row/RS20871.pdf>

² This does not involve support for the Taliban. The accusation that Iran is supporting Taliban needs strong sources, justifications, and rationale because the Iranians viewed the Taliban as their number two regional enemy after Saddam Hussein. Also Taliban murdered Iranian diplomats which brought the two countries on the verge of war. See Douglas Jehl, “Iran Holds Taliban Responsible for 9 Diplomats’ Deaths,” *New York Times*, Sept. 11, 1998, <http://www.nytimes.com/1998/09/11/world/iran-holds-taliban-responsible-for-9-diplomats-deaths.html?pagewanted=all&src=pm>

³ For information on Iran’s human rights record, see *State Department Country Report on Human Rights: Iran*, May 24, 2012. Also see State Department Briefing on Nov. 21, 2011, Secretary of State Hillary Clinton cited Iran’s “continuing human rights abuses, persecution of minorities, and forcible restrictions on political freedom” as cause for “increasing pressure and isolation” through sanctions, <http://www.state.gov/r/pa/prs/ps/2011/11/177613.htm>

⁴ Advocates for regime change as part of the U.S. sanctions policy often cite the Johnson–Shelby Iran Sanctions Accountability and Human Rights Act of 2012, which passed the Senate May 2012. This bill includes “pro-democracy” measures including punishing any entity that provides Iran with equipment or technology that facilitates censorship or suppression of human rights (including bullets, tear gas, monitoring and surveillance equipment). The removal of the People’s Mojahedin of Iran from the State Department’s list of terrorist organizations, has also been claimed by Iranians as proof of Washington’s desire for regime change. See Eskandar Sadeghi-Boroujerdi, *Sanctioning Iran: Implications and Consequences*, Oxford Research Group, Oct. 2012, p 4, http://www.oxfordresearchgroup.org.uk/publications/briefing_papers_and_reports/sanctioning_iran_implications_and_consequences
For more discussion on the causality of how sanctions (both targeted and comprehensive) may or may not lead to a change in policy or leadership, see Etel Solingen, ed., *Sanctions, Statecraft and Nuclear Proliferation*, Cambridge University Press, 2012, pp 1–23.

⁵ Former National Intelligence Officer, Paul Pillar, argues that much of what those who advocate for regime change “don’t like about Iran is not unique to the Islamic Republic” and “would continue under any imaginable successor regime.” This includes the current nuclear program, which began under the shah and has broad public support, as well as Iranian opposition to Israeli policies in the region. “Iran Sanctions and the Temptation of Regime Change,” *National Interest*, Oct. 3, 2012, <http://nationalinterest.org/blog/paul-pillar/the-temptation-regime-change-7554>

⁶ Meghan L. O’Sullivan, former U.S. Deputy National Security Adviser on Iraq and Afghanistan, and an expert on sanction regimes, claimed: “It is first important to acknowledge that sanctions almost never ‘work’ when they make up the entirety of a strategy.” See Robert D. Blackwill, ed., “Iran: The Nuclear Challenge” The Council on Foreign Relations, June 2012, p.15. The U.S. Treasury Department team that crafted many of the current sanctions policies spanning several administrations, David Cohen, Daniel Glaser, and Adam Szubin, stated that sanctions are designed to bring Iran back to the negotiating table. Sanctions should fit in the “overall dance of diplomacy,” and are not a replacement for policy” says Glaser, but rather “serve a policy.” See Emily Cadei, “Meet America’s Sanction Cops,” CNN, Nov. 5, 2012, <http://money.cnn.com/2012/11/05/news/world/iran-sanctions-treasury.fortune/index.html>

⁷ Sanctions might generate further inflexibility from Iranian leadership, and an instable situation. According to public policy scholar Farideh Farhi, “the reality is that the current sanctions regime does not constitute a stable situation. First, the instability...might beget is a constant force for policy re-evaluation on all sides (other members of the P5+1 included). Second, maintaining sanctions require vigilance while egging on the sanctioned regime to become more risk-taking in trying to get around them. This is a formula for war and it will happen if a real effort at compromise is not made. Inflexibility will beget inflexibility.” See Jasmine Ramsey, “On What A Second-Term President Obama Should Do With Iran,” Nov. 7, 2012, <http://www.lobelog.com/on-what-a-second-term-president-obama-should-do-with-iran/>

⁸ This number is somewhat variable, depending on the kinds of steps that each country has agreed to take in the wake of UN Security Resolution 1929.

⁹ For a detailed discussion of Israeli considerations in its decision whether to conduct a unilateral strike on Iran’s nuclear facilities, see James Zanotti, Kenneth Katzman, Steven Hildreth, and Jeremiah Gertler. “Israel: Possible Military Strike Against Iran’s Nuclear Facilities,” Congressional Research Service Report for Congress R42443, March 28, 2012.

¹⁰ National Security Adviser Tom Donilon stated in 2011: “The effect of these sanctions has been clear. Coupled with mistakes and difficulties in Iran, they have slowed Iran’s nuclear efforts. Sanctions and export control efforts have made it more difficult and costly for Iran to acquire key materials and equipment for its enrichment program, including items that Iran cannot produce itself.” Speech at the Brookings Institution, Nov. 22, 2011.

Endnotes

¹¹ David Albright, Paul Brannan, Andrea Stricker, et al., “Preventing Iran from Getting Nuclear Weapons: Constraining Its Future Nuclear Options,” Institute for Science and International Security, March 5, 2012, http://isis-online.org/uploads/isis-reports/documents/USIP_Template_5March2012-1.pdf

¹² Iran’s capability of eventually producing a nuclear weapon, should it decide to do so, is described on page 6 of the Jan. 31, 2012, “Unclassified Statement for the Record on the Worldwide Threat Assessment of the U.S. Intelligence Community for the Senate Select Committee on Intelligence,” presented by James R. Clapper, Director of National Intelligence. In an earlier hearing (March 10, 2011) before the U.S. Senate Committee on Armed Services, Clapper expressed a high level of confidence that Iran had not decided to restart its nuclear weapons program, <http://armed-services.senate.gov/Transcripts/2011/03%20March/11-11%20-%203-10-11.pdf>

¹³ IAEA Board of Governors, “Implementation of the NPT Safeguards Agreement and Relevant Provisions of Security Council Resolutions in the Islamic Republic of Iran,” Feb. 24, 2012, http://www.isisnucleariran.org/assets/pdf/IAEA_Iran_Report_24February2012.pdf

¹⁴ See David Albright and Andrea Stricker, “Iran’s Nuclear Setbacks: A Key for U.S. Diplomacy,” *The Iran Primer*, U.S. Institute of Peace, Jan. 18, 2011, <http://iranprimer.usip.org/blog/all/David%20Albright>

¹⁵ Simon Henderson and Olli Heinonen, “Nuclear Iran: Technical Issues Overshadowing Negotiations,” Washington Institute of Near East Policy, Oct. 23, 2012.

¹⁶ IAEA, “Implementation of the NPT Safeguards Agreement and Relevant Provisions of Security Council Resolutions in the Islamic Republic of Iran,” May 25, 2012, <http://www.iranwatch.org/iaea-iranreport-052512.pdf>

¹⁷ Iran is reported to have reduced support for the Palestinian Islamist group Hamas since mid-2011, but that is because Hamas (a Sunni group) has supported Assad’s mostly Sunni opponents, not because sanctions have caused Iran to reduce support for Hamas. Harriet Sherwood, “Hamas Rules out Military Support for Iran in Any War With Israel,” *Guardian*, March 6, 2012, <http://www.guardian.co.uk/world/2012/mar/06/hamas-no-military-aid-for-iran>
For an extended discussion of Iran’s support for international terrorism, see Greg Bruno, “State Sponsors: Iran,” Council on Foreign Relations, Oct. 13, 2011, <http://www.cfr.org/iran/state-sponsors-iran/p9362>

¹⁸ Saeed Kamali Dehghan, “Syrian Army Bing Aided by Iranian forces,” *Guardian*, May 28, 2012, <http://www.guardian.co.uk/world/2012/may/28/syria-army-iran-forces>

¹⁹ The subsidy reforms, which have been a centerpiece of President Ahmadienjad’s economic policies, are currently under consideration for suspension by Parliament. They have been aimed to ease pressure on state finances by cutting tens of billions of dollars from the amount that the government pays to subsidize low consumer prices for food and fuel, while offsetting the impact on Iran’s poorest citizens by giving them monthly cash payments. Yeganeh Torbati, “Iran Parliament May Halt Ahmadienjad Economic Policy,” Reuters, Oct.7, 2012, <http://www.reuters.com/article/2012/10/07/us-iran-economy-idUSBRE8950B320121007>

²⁰ U.S. Department of Treasury Press Center, “Remarks of Under Secretary for Terrorism and Financial Intelligence David Cohen Before the New York University School of Law on “The Law and Policy of Iran Sanctions,” Sept. 12, 2012, <http://www.treasury.gov/press-center/press-releases/Pages/tg1706.aspx>
Others found the chronically high levels of inflation reached an annualized rate of 34% in July 2012. See Ladane Nasseri, “Iran Lawmaker Says Inflation Is 33.5 Percent,” Bloomberg News, July 8, 2012, <http://www.bloomberg.com/news/2012-07-08/iran-lawmaker-says-inflation-is-33-5-percent-donya-reports.html>

²¹ The U.S. put the official unemployment rate in Iran at 17%, although it is “likely higher.” Ibid.

²² Iran has vowed to cut imports of nonessential goods including cell phones and cars. The ISNA reported more than \$10 billion annually spent on luxury nonessential goods, namely due to its large urban middle class, and will rely more on domestic manufacturers. They plan to raise import tariffs on luxury items, Iran’s merchandise imports run closer to \$50 billion a year according to the Iranian government, slashing this could reduce pressure on its foreign exchange reserves. Some think this runs the risk of a surge in corruption and black-market dealings. See, Reuters, “Iran says it will cut imports of nonessential goods,” October 15, 2012. Also, negative affects of the private sector include a 36% decrease in automobile manufacturing, because companies refuse to sell Iran essential parts. Sadeghi-Boroujerdi, op. cit., p 13.

²³ India is cited as the third-largest purchaser of Iranian oil, and Iran recently became Turkey’s largest trading partner, ibid, p 12.

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²⁴ There is a discrepancy of numbers reported of Iranian crude oil exports. Statement by Secretary of State Hillary Rodham Clinton, cites the difference from 2011 of 2.5 million barrels per day (mbpd), to roughly 1.5 mbpd, which in real terms means almost \$8 billion in lost revenues every quarter. See “Regarding Significant Reductions of Iranian Crude Oil Purchases,” June 28, 2012, <http://www.state.gov/secretary/rm/2012/06/194200.htm>. An independent report cited a fall from roughly 2.2 mbpd in 2010 to 1.2 mbpd in August 2012. See Sen. Charles S. Robb and Gen. (ret.) Charles Wald, “The Price of Inaction: Analysis of Energy and Economic Effects of a Nuclear Iran,” Bipartisan Policy Center, Oct. 2012. Whereas the U.S. Department of Treasury published a reference to a 55% decrease from 2.4 mbpd in 2011, to 1 mbpd in 2012. They also noted that before this crash, Iran was considered the third-largest oil exporter in the world, and earned nearly \$100 billion from oil sales. It is estimated that the decrease in exports has cost Iran up to \$5 billion a month, forcing Iran to cut its budget because of the lack of revenue. See U.S. Department of Treasury Press Center, “Remarks of Under Secretary for Terrorism and Financial Intelligence David Cohen Before the New York University School of Law on “The Law and Policy of Iran Sanctions,” Sept. 12, 2012, <http://www.treasury.gov/press-center/press-releases/Pages/tg1706.aspx>

²⁵ For more see Indira A.R. Lakshmanan and Pratih Narayanan, “India and China Skirt Iran Sanctions With ‘Junk for Oil,’” Bloomberg News, March 30, 2012, <http://www.bloomberg.com/news/2012-03-29/india-and-china-skirt-iran-sanctions-with-junk-for-oil-.html>

²⁶ See Rick Gladstone, “A New Sign of Distress as Iran’s Currency Falls,” *New York Times*, October 1, 2012, http://www.nytimes.com/2012/10/02/world/middleeast/irans-rial-plummets-against-the-dollar.html?_r=0

²⁷ On Iran’s hard currency reserves, see Reuters, “UPDATE 3–Iran Rial Plunges as Western Sanctions Bite,” Oct. 1, 2012, <http://www.reuters.com/article/2012/10/01/iran-currency-drop-idUSL6E8L1ASL20121001>. See also Marcus George, “Iran Pledges to Counter ‘Malicious’ Oil Embargo,” Reuters, July 1, 2012, <http://in.reuters.com/article/2012/07/01/iran-sanctions-idINL6E8I106C20120701>

²⁸ “Coping with High Debt and Sluggish Growth,” International Monetary Fund, Oct. 2012, <http://www.imf.org/external/pubs/ft/weo/2012/02/pdf/text.pdf>

²⁹ Camilla Hall, “Dubai Jittery Over Business with Iran,” *Financial Times*, Aug. 12, 2012, <http://www.ft.com/intl/cms/s/0/63c880bc-e23f-11e1-8e9d-00144feab49a.html#axzz2ByZIT47b>

³⁰ Annika Folkesson, “U.S.–Iran Trade Still Thrives,” *The Iran Primer*, U.S. Institute of Peace, April 10, 2012, <http://iranprimer.usip.org/blog/2012/apr/10/us-iran-trade-still-thrives-0>

³¹ Iran provides 18% of Turkey’s natural gas and 51% (some estimate 40%) of its oil. Iran accounts for 60% of Turkey’s gold exports this year and Turkey’s total trade with Iran rose 50% to a record \$16 billion in 2011. Joe Parkinson and Emre Peker, “Turkey Swaps Gold for Iranian Gas,” *Wall Street Journal*, Nov. 23, 2012 <http://online.wsj.com/article/SB10001424127887324352004578136973602198776.html> See also, Humay Guliyeva, What’s Iran doing with Turkish gold?, July 9, 2012. <http://blogs.ft.com/beyond-brics/2012/07/09/whats-iran-doing-with-all-that-turkish-gold/#axzz208fGjjSc>

³² Nader Habibi, “Turkey and Iran: Growing Economic Relations Despite Western Sanctions,” *Middle East Brief*, No. 62, May 2012, <http://www.brandeis.edu/crown/publications/meb/MEB62.pdf>

³³ Silvia Antonioli, “Steel Is Turkey’s Latest Helping Hand to Iran,” Reuters, Aug. 16, 2012, <http://in.reuters.com/article/2012/08/16/steel-turkey-iran-idINL6E8JGC8U20120816>

³⁴ For full text of the UN experts panel report, see <http://www.iranwatch.org/international/UNSC/un-panelofexpertsreport-061212.pdf>

³⁵ For extensive analysis of the U.S. defense relationship with the Persian Gulf monarchy states of the GCC, see Senate Foreign Relations Committee, “The Gulf Security Architecture: Partnership With the Gulf Cooperation Council,” Majority Staff Report, June 19, 2012.

³⁶ “Weapons sales by the United States tripled in 2011 to a record high, driven by major arms sales to Persian Gulf allies” “Overseas weapons sales by the United States totaled \$66.3 billion last year, or more than three-quarters of the global arms market” Saudi Arabia accounted for \$33.4 billion of those sales. See Thom Shanker, “U.S. Arm Sales Make up Most of Global Market,” *New York Times*, Aug. 26, 2012, <http://www.nytimes.com/2012/08/27/world/middleeast/us-foreign-arms-sales-reach-66-3-billion-in-2011.html>

³⁷ Michael Elleman, “Iran’s Ballistic Missile Program,” *The Iran Primer*, U.S. Institute of Peace, <http://iranprimer.usip.org/resource/irans-ballistic-missile-program>

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³⁸ Iran still has vast reserves and is strategically placed between two major energy hubs—the Caspian Sea and the Persian Gulf. Iran also has the second-biggest natural gas reserves in the world. Its ability to disrupt oil flow from the Strait of Hormuz, will be catastrophic, as 35% of the international oil leaves from that narrow strait and accounts for 90% of GCC and Iraq sea-bound oil exports. These elements will ensure oil prices will be extremely sensitive to Iranian disruptions. However, some experts have argued that given the current glut in oil markets, the impact may be lessened. With Saudi Arabia producing more oil, and a lower level of global consumption, it is uncertain how great the impact would actually be. See Dan Murphy, “Iran’s threats over Strait of Hormuz? Understandable, but Not Easy,” *Christian Science Monitor*, Dec. 28, 2012, <http://www.csmonitor.com/World/Backchannels/2011/1228/Iran-s-threats-over-Strait-of-Hormuz-Understandable-but-not-easy>

³⁹ Op cit. James Clapper, Senate Select Committee on Intelligence, Jan. 31, 2012.

⁴⁰ Some U.S. representatives have seen economic sanctions against Iran as building “public discontent” that will help compel the government to abandon an alleged nuclear weapons program, according to a senior U.S. intelligence official. In addition to influencing Iranian leaders directly, the official said, “another option here is that [sanctions] will create hate and discontent at the street level so that the Iranian leaders realize that they need to change their ways.” He went on to say that “the question is whether people in the government feel pressure from the fact that there’s public discontent,” the official said, “versus whether the sanctions themselves are intended to collapse the regime.” See Karen DeYoung and Scott Wilson, “Public Ire One Goal of Iran Sanctions, U.S. Official Says,” *Washington Post*, Jan. 10, 2012, http://www.washingtonpost.com/world/national-security/goal-of-iran-sanctions-is-regime-collapse-us-official-says/2012/01/10/gIQA0KJsoP_story.html

⁴¹ There are some indications that Iranian people hold domestic leadership responsible for poor conditions under sanctions. In 2008, a group of 60 Iranian economists distributed a letter attacking Ahmadinejad’s “tension-creating” foreign policy, arguing that it “scared off foreign investment and inflicted heavy damage” on the economy. See Borzou Daragahi, “Economists in Iran Criticize Ahmadinejad,” *Los Angeles Times*, Nov. 10, 2008. In addition, in March 2012, Ahmadinejad was summoned by parliament for mismanagement of the economy. See Ladane Nasser, “Ahmadinejad Gets Blame and Sanctions Economy Sputters,” Bloomberg, March 25, 2012, <http://www.bloomberg.com/news/2012-03-25/ahmadinejad-gets-blame-and-sanctions-as-economy-sputters.html>. It is unclear if public discontent is targeted at Ahmadinejad and specific leaders only, or more broadly, the regime.

⁴² Because Washington’s sanctions are extra-territorial in nature, it has taken steps of sanctioning Chinese and Iraqi banks, both accused of facilitating Iranian transactions, amongst numerous other companies accused of doing business with Iran. Sadeghi-Boroujerdi, op. cit., p 14.

⁴³ Katzman, “Iran Sanctions,” op. cit.

⁴⁴ While a stronger IRGC cannot be considered a positive result of the sanctions, pragmatic IRGC leaders may actually be quicker than other Iranian leaders to appreciate the scale of the damage that has been caused by the sanctions, and to push for steps to halt the bleeding. While sanctions have helped concentrate control of the economy in the hands of Iran’s IRGC, many argue that this might also make the IRGC a more precise target of sanctions. Etel Solingen, ed., *Sanctions, Statecraft and Nuclear Proliferation*, Cambridge University Press, 2012, p 20.

⁴⁵ IRGC-controlled firms have also acquired large stakes in other key sectors, including telecommunications (Iran Telecom is majority owned by the IRGC), banking, and transportation. The IRGC and government entities continue to have access to hard currency at the more advantageous official rate of 1,260 rials to the dollar, enabling these institutions to grow economically larger—relative to the private sector—through currency arbitrage and other financial devices. They have such access because the Central Bank, which controls Iran’s hard currency reserves, can distribute hard currency directly to ministries and organizations such as the IRGC. This economic strength allows the government to strengthen its grip on the population. The IRGC has won lucrative energy development contracts as a result of diminished foreign investment, and gained access to Iran’s foreign currency reserves. Oil minister Rostam Qassemi hails from the IRGC, and since being appointed in 2011, had helped the IRGC take control over a larger share of the private sector and benefit from sanctions that have eliminated foreign competition. Ali Alfoneh, “Iran’s Revolutionary Guards Strike Oil,” *Middle East Quarterly*, Winter 2012, <http://www.meforum.org/3153/iran-revolutionary-guards-strike-oil>

⁴⁶ Nicholas Kristof, “Pinched and Griping in Iran.” *New York Times*, June 16, 2012.

⁴⁷ For information on the IRGC role in the economy, see Ali Alfoneh, “How Intertwined Are the Revolutionary Guards in Iran’s Economy,” <http://www.aei.org/article/foreign-and-defense-policy/regional/middle-east-and-north-africa/how-intertwined-are-the-revolutionary-guards-in-irans-economy/>. AEI, Oct. 22, 2007. For in-depth analysis of the formation and role of the IRGC in defending the Islamic regime in Iran, see Katzman, Kenneth, *The Warriors of Islam: Iran’s Revolutionary Guard*. Westview Press, 1993. On “economic warfare,” the head of the Iranian Central Bank, Mahmood Bahmani, stated that the bank has formed a committee to combat economic warfare, see Sadeghi-Boroujerdi, op. cit., p 14.

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⁴⁸ Mohammad Ali Shabani, a political analyst in Tehran, explained the regime “portrayed a high turnout as a way to show unity and resistance in the face of sanctions,” as reported by Robert F. Worth in the *New York Times*, “Iran’s Government Declares Huge Turnout in First National Vote Since ’09 Protests,” March 2, 2012.

⁴⁹ It should be noted that presidential candidates will be vetted by the Supreme Leader Khamenei prior to the 2013 presidential election. It is unclear how likely it is for a more moderate, reformist candidate to be elected. Reformist leaders are considering if they should boycott the election, present a candidate, or to create an alliance with another party less likely to be open to diplomacy with the United States. Naghmeh Sohrabi, “Reading the Tea Leaves: Iranian Domestic Politics and the Presidential Election of 2013,” Crown Center for Middle East Studies, July 2012.

⁵⁰ James Ball, “Sanctions’ Unintended Target: Opposition,” *Washington Post*, Aug. 15, 2012.

⁵¹ Some argue that sanctions have paradoxically strengthened Iran’s internal development, forcing it to rely on its domestic workforce particularly in engineering, electronics, cybernetics, and information technology. “Sanctions on Iran Amount to Economic, Financial Aggression,” Mehr News Agency interview with Janos Drabik, Oct. 14, 2012.

⁵² The hardships borne by Iranian citizenry has had a changing affect on Iran’s largely pro-American youth population. See Soraya Lennie, “Iran Sanctions Stoke Anti-US Sentiment,” Aljazeera, Nov. 5, 2012. Also, it is reported that the hardest hit by sanctions are Iran’s youth, from 1996 to 2006, accounted for 70% unemployment. Poor levels of job creation have been a detriment to women as well. Sadeghi-Boroujerdi, op. cit. p 19.

⁵³ Geneive Abdo, “Fate of the Green Movement Leaders,” *The Iran Primer*, U.S. Institute of Peace, Oct. 11, 2011, <http://iranprimer.usip.org/blog/2011/oct/11/fate-green-movement-leaders>

⁵⁴ Mahmoud Bahmani, the Governor of the Central Bank of Iran (CBI), has said that CBI considers the sanctions as a declaration of war. Ismail Salami, “Economic Sanctions on Iran: A Declaration of War,” Global Research, Aug. 6, 2012, <http://www.globalresearch.ca/economic-sanctions-on-iran-a-declaration-of-war/32222>

⁵⁵ Gary Clyde Hufbauer et. al., *Economic Sanctions Reconsidered*, Peterson Institute for International Economics, United Book Press, 2007.

⁵⁶ For an analysis of the consequences of taking military action against Iran, see The Iran Project’s recent paper, *Weighing the Benefits and Costs of Military Action Against Iran*, Sept. 2012, www.theiranproject.org/reports

⁵⁷ Clapper testimony, op. cit.

⁵⁸ Text of the report can be found at <http://www.fas.org/man/eprint/dod-iran.pdf>

⁵⁹ In January 2012, Iranian defense minister Ahmad Vahidi warned, “Iran will do anything to preserve the security of the Strait of Hormuz” Senior parliamentarian, Alaeddin Boroujerdi, said “no one will have the right to export oil through the Strait of Hormuz” if Europe sanctioned Iran’s oil exports. See “Iran Issues New Threat on Strait of Hormuz,” *The National*, Jan. 5, 2012. Also Ali Fadavi, a naval commander in Iran’s IRGC stated: “The IRGC’s naval forces have had the ability since the [Iran–Iraq] war to completely control the Strait of Hormuz and not allow even a single drop of oil to pass through.” See “Iran’s Top Leader to Decide on Blocking of Strait of Hormuz,” Alarabiya, July 14, 2012.

⁶⁰ Iran’s parliamentary news agency quoted MP Ibrahim Agha-Mohammadi: “There is a bill prepared in the National Security and Foreign Policy committee of Parliament that stresses the blocking of oil tanker traffic carrying oil to countries that have sanctioned Iran.” He continued, “This bill has been developed as an answer to the European Union’s oil sanctions against the Islamic Republic of Iran.” Reuters, “Iran Drafts Bill to Block Hormuz for Gulf Oil Tankers,” July 2, 2012, <http://www.reuters.com/article/2012/07/02/us-iran-oil-hormuz-idUSBRE8610R920120702>

⁶¹ With the United State now the fastest-growing oil and gas producing country in the world (during the past five years it has added 2.59 m barrels a day to total supply, an average growth rate of 500,000 barrels a day per year according to Citigroup), its dependence on imports has declined. China on the other hand, is becoming increasingly dependent on crude imports from the Middle East, exposing it more to the risk of potential disruptions in Gulf oil supplies. For the U.S. what still matters is price. “Even if our imports went to zero, that’s not going to reduce our vulnerability to a price shock,” says David Goldwyn, head of Goldwyn Global Strategies, a consultancy. Oil prices will remain volatile, he says, as long as there are global price benchmarks and no easy substitute for petrol as a transport fuel. To prevent price volatility, the U.S. will likely stay engaged in defending seas lanes and guarding crucial choke points such as the Strait of

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Hormuz, in which 35% of ship-borne crude oil passes. See Guy Chazan, “Balance of Power Shifts in Changing World of Oil,” *Financial Times*, Nov. 4, 2012, <http://www.ft.com/intl/cms/s/0/3fa97bf8-1dce-11e2-8e1d-00144feabdc0.html#axzz2BZwgYJlv>

⁶² Past international sanctions efforts (e.g., against Iraq in the late 1990s) have lost support over time because of the human suffering caused or allegedly caused by the sanctions. So far, this has not been a divisive issue for participants in the Iran sanctions regime.

⁶³ In March 2012, the Society for Worldwide Interbank Financial Telecommunication (SWIFT) disconnected Iranian banks from its messaging system, which facilitates most transnational payments, further complicating Iran’s ability to import goods, including medicines. “Payment system SWIFT to expel Iranian banks Saturday,” Reuters, March 15, 2012. <http://www.reuters.com/article/2012/03/15/us-nuclear-iran-idUSBRE82E15M20120315>. See also, Najmeh Bozorgmehr “In Iran, Sanctions Take a Toll on the Sick,” The Washington Post, Sept. 4, 2012 http://www.washingtonpost.com/world/middle_east/sanctions-take-toll-on-irans-sick/2012/09/04/ce07ee2c-f6b2-11e1-8253-3f495ae70650_story.html

⁶⁴ In Iran, the price of staple food items, such as cooking oil and rice, have skyrocketed, and once-ubiquitous foods, such as chicken, have become completely out of reach for the average Iranian citizen. See Murtaza Hussain, “Sanctioning Society: From Iraq to Iran,” Aljazeera, Oct. 3, 2012, <http://www.aljazeera.com/indepth/opinion/2012/10/201210373854792889.html>

⁶⁵ Iran’s domestic pharmaceutical factories depend on foreign countries for more than half of their raw materials. Additionally, the head of the Society of Pharmacists of Iran states that “the majority of the pharmacies are up for sale” due to four-fold increase in taxation on pharmacies. .as a result, around 100 pharmacies have been put up for sale in recent months. Sadeghi-Boroujerdi, op. cit., p 13.

⁶⁶ Although The European Union and the United States have exempted the export of medical goods to Iran, shortages from imported drugs have been reported over the past year, and are presumed to be a result of sanctions. This has caused an increase of demand of drugs in the black market, easing corruption, and basic ingredients to manufacture such drugs domestically are also extremely difficult to import. See PBS Frontline, “Dispatch Part 1: The Disappearance of Lifesaving Drugs,” Nov. 8, 2012, <http://www.pbs.org/wgbh/pages/front-line/tehranbureau/2012/11/sanctioning-sickness-part-1-the-disappearance-of-lifesaving-drugs.html#ixzz2BjzNUo76>. Also, it is reported that over six million cancer patients are said to have been affect by the sanctions, as well as thousands of others with life-threatening conditions, if not treated properly. It is reported that “virtually no American or European bank wants to be involved in financial transactions with Iran, no matter what products are involved.” The Treasury Department has been handing out steep fines to Western banks for doing business with Iran. One Western diplomat in Tehran said, “Banks are either afraid, or can’t be bothered to try and do business with Iran.” See Thomas Erdbrink, “Iran Sanctions Take Unexpected Toll on Medical Imports,” *New York Times*, Nov. 2, 2012, <http://www.nytimes.com/2012/11/03/world/middleeast/iran-sanctions-take-toll-on-medical-imports.html?pagewanted=all> .

⁶⁷ Iranian airline pilots have begun a campaign to highlight the adverse effects of the sanctions on passenger safety in Iran and to persuade the U.S. government to roll back these restrictions. See Thomas Erdbink, “Iran’s Aging Airliner Fleet Seen As Faltering Under U.S. Sanctions,” *New York Times*, July 14, 2012.

⁶⁸ Treasury Department, Office of Foreign Assets Control, “Clarifying Guidance: Humanitarian Assistance to Iran,” Aug. 13, 2012.

⁶⁹ In the case of the Bam earthquake in December 2003, OFAC issued a blanket license, for a 90-day period, to allow organizations to receive donations without going through the license application process.

⁷⁰ In 1995—and despite a perception that Iran would not give any business to a major American company—Conoco Corp. won a contract from Iran to develop an oilfield on Iran’s Sirri Island, off the Persian Gulf coast. Conoco was forced to give up the project shortly thereafter, when the 1995 trade and investment ban (see the primer at the end of this paper) was imposed by the United States.

⁷¹ This exemption is referred to in the Iran Sanctions Act as the “special rule”—under which the administration refrains from investigating a company’s investment in Iran if the company promises to end its existing energy development business in Iran and seek no new such business.

⁷² Katzman, “Iran Sanctions Act,” op. cit.

⁷³ “The Latest Invasion: Iranians See Burgeoning Trade With China as a Mixed Blessing,” *Economist*, Aug. 18, 2012, <http://www.economist.com/node/21560614>

⁷⁴ The growth of China–Iran trade poses a challenge to the efficacy of Washington’s extra-territorial banking sanctions. China received a U.S. sanctions waiver in October 2012 with minimal compliance. In August 2012, Chinese banks were under investigation for helping

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Iran skirt sanctions by transferring money through British, then American branches of their banks. Chinese purchases account for approximately 20% of Iran’s oil exports, *Iran: The Nuclear Challenge*,” Robert D. Blackwill, ed., Council of Foreign Relations Press, 2012. Also, as put by Richard Sawaya, Director of USA Engage at the National Foreign Trade Council in a phone interview, Oct. 19, 2012. Other parts of Asia are heavily invested as well. Much of Asia is concerned about the availability of oil supplies for its growing needs, and will likely increase purchases if reasons for sanctions evaporates. Major Iranian customers, including India, Japan, and South Korea, have complied with the U.S. sanctions law enacted in 2011. Over the longer term, previous major EU purchasers of Iranian crude oil, mainly hard-hit economies in southern Europe, will likely want to resume imports from Iran. See Sen. Charles S. Robb and Gen. (ret.) Charles Wald, “The Price of Inaction: Analysis of Energy and Economic Effects of a Nuclear Iran,” Bipartisan Policy Center, Oct. 2012.

⁷⁵ Estimates of Iran’s GDP vary. For the \$1 trillion dollar estimate see “Iran Country Report,” *Global Finance Magazine*, <http://www.gfmag.com/gdp-data-country-reports/253-iran-gdp-country-report.html#axzz2CmAmIsrL>

⁷⁶ The Obama administration adjusted the implementation of the Iran Sanctions Act by not identifying China’s “big three” energy companies for sanctions. Some believe this move was in return for China’s support for 2012 UN sanctions on Iran and “restraint regarding new investments in Iran’s energy sector.” Going forward, the United States may make additional concessions for China, <http://usaengage.org/Issues/Sanctions-Programs/Iran/>. Also, from 2007 to 2011, Iranian imports of Chinese goods increased by 200%, and Iranian exports to China increased by 128%, even as China has shown some willingness to comply with the U.S. sanctions regime. According to Reuters, “Some traders suspect China’s increased buying of alternatives may be a ploy to bolster its bargaining position in the supply talks with Tehran.” In addition, by negotiating for a favorable price with Iran, China will offset the premiums it has paid for alternative sources of oil. See Judy Hua and Alex Lawler, “China Buys up Saudi, Russian Oil to Squeeze Iran,” Reuters, Feb. 7, 2012.

⁷⁷ Senators who drafted the provision and the Treasury Department agreed a “significant reduction” should be defined as an 18% purchase reduction based on total price paid (not just volumes). Administration officials say they have adhered to this general standard when issuing exemptions. Katzman, Congressional Research Service, Oct. 15, 2012, 19. Also, On Jan. 23, 2012, The European Union passed Council Decision 2012/35/CFSP, amending Decision 2010/413/CFSP concerning restrictive measures against Iran. New measures ban the import, transport, or purchase of Iranian crude oil, petroleum, and petrochemical products that made up of 92% of EU imports from Iran. Sale, purchase, transportation, or brokering of gold and precious metals; as well as petrochemical technologies, insurance, and financing to Iran’s petrochemical industry; and sanctions against the Central Bank of Iran also were banned. For more details see EU Council Decisions, http://trade.ec.europa.eu/doclib/docs/2012/february/tradoc_149069.pdf

⁷⁸ Laura El-Katiri and Bassam Fattouh, “The Oil Embargoes and the Myth of the Iranian Oil Weapon,” Oxford Institute for Energy Studies, Feb. 2012, pp 3–4.

⁷⁹ “Sanctions Hit—and Miss—in German Trade With Iran,” *Wall Street Journal*, Dec. 17, 2011, <http://online.wsj.com/article/SB10001424052970204323904577040172793024832.html>

⁸⁰ Italian oil company Eni is reportedly owed almost \$2 billion by Iran’s national oil company NIOC, and may need to wait indefinitely until the company is fully repaid. See, “The Oil Embargoes and the Myth of the Iranian Oil Weapon,” Laura El-Katiri and Bassam Fattouh, Oxford Institute for Energy Studies, Feb. 2012, p 3.

⁸¹ Sadeghi-Boroujerdi, op. cit. Also, the United States is concerned that the investment void caused by the European oil embargo will be “backfilled” by firms in China, Malaysia, Vietnam and countries in Eastern Europe who will take over abandoned contacts. Others believe, however, that companies that will potentially “backfill” Iranian projects do not have the technical capability to match previous European investment in Iran’s oil sector. See Kenneth Katzman, op. cit.

⁸² Nader Habibi, “The Impact of Sanctions on Iran-GCC Economic Relations,” Middle East Brief, No. 45, Nov. 2010, <http://www.brandeis.edu/crown/publications/meb/MEB45.pdf>

⁸³ The Obama administration has attempted to limit Iran’s ability to exchange currency for dollars through Afghanistan and other neighbors. On July 30, 2012, President Obama passed an Executive Order that gave the Treasury Department “capacity to punish any person who buys dollars or precious metals, like gold, on behalf of the Iranian government.” Matthew Rosenberg and Ann Lowrey, “Iranian Currency Traders Find Haven in Afghanistan,” *New York Times*, Aug. 17, 2012, <http://www.nytimes.com/2012/08/18/world/middleeast/iranian-currency-flows-into-afghanistan-markets.html?pagewanted=all>

⁸⁴ Afghan civilians who have been using Iranian rials for the last decade, and who benefited from a steady stream of Iranians traveling across the boarder to exchange rials for ubiquitous American dollars, have been hit hard by the free-fall in the value of the rial.

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See Frud Bezhan and Shahpur Sadar, “Afghan Currency-Exchange Window Closing for Iranians” Radio Free Europe, Oct. 5, 2012, <http://www.rferl.org/content/iran-afghanistan-rial-currency-crisis/24729954.html>

⁸⁵ The intensified sanctions against Iran has also had an effect on Afghans who worked in Iranian factories. It is estimated that nearly 1,000 Afghans return to Afghanistan from jobs they’ve lost in Iran. Since the crash of the Iranian rial, Afghans have been forced to return home, raising unemployment. Prior to the sanctions, Heart, 75 miles from the Iranian border, had been thriving without NATO dollars, and could have been a beacon for the Afghan economy. The return of these migrant workers from Iran could have a seriously negative affect on Heart, and other border cities. See *Economist*, “Afghanistan: Location, Location. A Region that Thrived on its Closeness to Iran Is Now Suddenly in Trouble,” Nov. 10–16, 2012.

⁸⁶ Energy Information Administration, Country Analysis Brief: Iran, Feb. 17, 2012.

⁸⁷ Worldwide oil production is growing quickly, by the end of 2012, it is likely to surpass 92 million barrels per day, with additional spare capacity of more than 3.5 million barrels. Meanwhile, oil demand is growing sluggishly, with the troubled global economic situation, the demand this year will likely not exceed 89 million barrels per day. High oil prices and the need for most companies to replace their reserves are driving up unprecedented investment, which will have strong consequences on new oil production in the next few years. Saudi Arabia has been able to increase or decrease its own oil supply to make up for bigger reductions in Iranian oil exports. Current oil prices have increased due to fear of unfolding Iranian situation and the prospect of military escalation in the Persian Gulf. Although the mindset of limited oil availability misrepresents reality, it has had a huge effect on oil prices. While oil prices should drop due to the oil glut in the market, market psychology continues to act as though prices are bound to increase. See Leonardo Maugeri, “The Coming Oil Glut: The Real Forces Shaping the Market Point to a Significant Downturn of Oil Prices,” *Wall Street Journal*, Nov. 6, 2012, <http://online.wsj.com/article/SB10001424052970204712904578094980730090350.html>

⁸⁸ “Iranian oil output, exports rebound—IEA,” Reuters, Nov. 13, 2012, <http://www.reuters.com/article/2012/11/13/iea-idUS-S8E7LQ02G20121113>

⁸⁹ In 1996, Iran and Turkey signed a 25-year agreement to supply 10 billion cubic meters of gas to Turkey annually. Turkey will not reduce the oil and gas it imports from Iran when an exemption from U.S. sanctions expires on December 3, Turkish Energy Minister Taner Yildiz said. See “Turkey Will Not Reduce Iranian Oil and Gas Imports: Energy Minister,” Reuters, Nov. 9, 2012, <http://www.reuters.com/article/2012/11/08/turkey-iran-energy-idAFL5E8M86YX20121108>

⁹⁰ Executive Order 12170, Nov. 14, 1979, 44 F.R. 65729 Blocking Iranian Government Property, <http://www.treasury.gov/resourcecenter/sanctions/Programs/Documents/Executive%20Order%2012170.pdf>

⁹¹ The act was originally titled the Iran and Libya Sanctions Act (ILSA), applying all provisions to Libya as well as Iran. The act terminated with respect to Libya in 2004 after Libya gave up its nuclear and other strategic programs as part of a rapprochement with the United States. Subsequent legislation renamed the act the Iran Sanctions Act.

⁹² Kelsey Davenport, History of Official Proposals on the Iranian Nuclear Issue, August 2012, http://www.armscontrol.org/factsheets/Iran_Nuclear_Proposals

⁹³ U.S. exports to Iran rose by nearly 1/3 this year despite sanctions (to \$199.5 million from \$150.8 million one year earlier, according to Census Bureau data), chiefly due to grain sales, which amounted to \$89.2 million through August 2012. The overall increase however masks a drop in some humanitarian goods such as medicines, the export of which has fallen—according to U.S. exporters—because of the difficulty of getting paid by Iranian importers due to new U.S. financial sanctions. Medicinal and pharmaceutical products fell to \$14.9 million from \$26.7 million (from 2011 to 2012). Since no U.S. institution wants to obtain hard currency from a blacklisted bank, many exporters have been spooked into cutting trade altogether, leading to a de facto humanitarian banking blockade. See Reuters, “U.S. Exports to Iran Rise Nearly One-Third Despite Sanctions,” Oct. 15, 2012, <http://www.reuters.com/article/2012/10/15/us-iran-usa-exports-idUSBRE89E04L20121015>

⁹⁴ While the sanctions have a detrimental effect on Iranian economy, it is also the case that “Iran’s economy is relatively diversified. Oil exports only accounted for 21% of Iran’s GDP last year compared with 30% to 50% among most Arab Persian Gulf states,” <http://www.al-monitor.com/pulse/originals/2012/al-monitor/more-than-sanctions-depressing-i.html>

⁹⁵ This is largely advocated by non-governmental organization groups such as United Against a Nuclear Iran, and actually appears to have broad opposition among U.S. allied governments that object to measures that broadly affect the Iranian people or affect commerce that has nothing to do with stopping Iran’s nuclear program. See Ken Katzman, “Iran Sanctions,” Congressional Research Service, Oct. 15, 2012, p 68.

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⁹⁶ Executive Order 13622 and P.L. 112-158 illustrate a U.S. unilateral move to compel others to cease purchasing Iranian oil, *ibid*, p 68.

⁹⁷ The amount of gas that reaches Europe from Iran is insignificant in terms of volumes. It is mostly transported via Turkey, which blends it with Azeri gas and ships it on. See Justyna Pawlak, “EU Moves Closer to New Iran Sanctions,” Reuters, Oct. 12, 2012, <http://www.reuters.com/article/2012/10/12/us-eu-iran-sanctions-idUSBRE89B0VJ20121012>

⁹⁸ Before the EU oil embargo went into effect October 2012, there was discussion of imposing a similar ban by closing the loophole in the U.S. trade ban under which Iranian crude oil, “when mixed with other countries’ oils at foreign refineries in Europe and elsewhere, can be imported as refined product.” Katzman, *op. cit.* “Iran Sanctions,” p 68.

⁹⁹ Justyna Pawlak, *op. cit.*

¹⁰⁰ The EU has already imposed a visa ban on “persons designated by the UN or associated with or providing support for Iran’s proliferation-sensitive nuclear activities or for the development of nuclear weapon delivery systems.... visa bans currently apply to 104 persons—43 of them have been designated by the UN, the others ...[by the] EU.” Future sanctions being considered would expand this current visa ban. See Council on the European Union, “Factsheet, The European Union and Iran,” Brussels, Oct. 16, 2012, p 5.

¹⁰¹ See Katzman, *op. cit.* “Iran Sanctions,” pp 68–69 for greater detail.

This paper was drafted by William Luers, Director of The Iran Project; Iris Bieri, The Iran Project Coordinator; and Priscilla Lewis, editor for The Iran Project. They were advised by Kenneth Katzman who provided invaluable consultation and insight. The paper also received important contributions from Thomas R. Pickering, Jim Walsh of MIT and Stephen Heintz of Rockefeller Brother’s Fund. Many of the signers made valuable comments and suggestions. Because of them the paper has become more complete and balanced. Additional material was provided by Roxanne Emadi. Our copy editor, Trish Leader, and design team from On Design, Inc., led by Okey Nestor, contributed their invaluable talents and time to make this publication possible.

The Iran Project is a non-governmental organization that seeks to improve official contacts between the United States and Iranian governments. Founded in 2002 by the United Nations Association of the USA and Rockefeller Brother’s Fund, The Iran Project became independent in 2009. The core members of The Iran Project for over a decade have been: Stephen Heintz, William Luers, William Miller, Thomas Pickering, Jim Walsh, and Frank Wisner.

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