



# Weighing Benefits and Costs of International Sanctions Against Iran



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.

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

Ronald Reagan

## 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.

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