# U.S. Sanctions

## Patrick Clawson

- The United States has had sanctions on Iran for most of the period since the 1979 Islamic revolution, with sanctions becoming broader since 1995 and expanded further since 2005, especially in 2011.

- U.S. sanctions have been controversial on many scores, with vigorous debates about their impact and their negative side effects.

- The extent and timing of U.S. sanctions relief that Iran will receive as part of the final nuclear deal are also matters of controversy.

## Overview

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

U.S. sanctions on Iran have drawn harsh criticism over the years. But sanctions have intensified under five presidents, indicating a broad bipartisan consensus that sanctions, for all their faults, are an important part of the U.S. policy mix towards Iran. While there is a strong consensus that multilateral sanctions are most effective, the role of U.S. sanctions is more controversial. U.S. sanctions were widely criticized in the 1990s for being unilateral. U.S. action, however, eventually spurred a broad international consensus, including a series of U.N. sanctions since 2007 and E.U. action since 2010. After 2005, the United States stepped up its enforcement of sanctions and took measures to restrict access to the U.S. financial system, with considerable impact.

U.S. officials disagree on the specific objectives of sanctions on Iran, which makes it difficult to judge how successful they have been. U.S. policymakers are persuaded sanctions were the key reason Iran returned to nuclear negotiations in 2013 prepared to compromise.

A new area of debate in Washington became how much and how quickly to relax U.S. sanctions in the event of a nuclear accord, given that Iran and the United States will continue to disagree on many other areas cited as reasons for sanctions.

In the vigorous U.S. debates about sanctions, all parties agree in principle to target the regime rather than the Iranian people and to encourage Iran to engage and compromise.

## Five major rounds

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

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

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

**The Reagan administration:** After the 1983 bombing of U.S. Marine peacekeepers in Lebanon, Washington imposed various restrictions, such as U.S. opposition to World Bank loans to Iran. During the Iran-Iraq War, the administration also imposed increasing restrictions on exports to Iran of dual-use items that could be adapted for military use. In 1987, Congressional criticism of U.S. purchases of Iranian oil for the U.S. Strategic Petroleum Reserve was a factor in President Reagan's order banning all U.S. imports from Iran.

**The Clinton administration:** In March 1995, after Iran announced a $1 billion contract with Conoco, a U.S. oil company, to develop selected oil and gas fields, Clinton banned all U.S. participation in Iranian petroleum development. Two months later, he broadened the sanctions to encompass a total trade and investment embargo on Iran. In 1996, Congress overwhelmingly passed the Iran and Libya Sanctions Act, (ILSA) to press foreign companies not to invest in Iran's oil and gas industry, the main source of the regime's income.

**The Bush administration:** After 2005, the United States issued a series of orders to freeze the assets of firms and individuals said to be involved in Iran's support for terrorism, in Iran's role in threatening stability in Iraq, and in Iran's nuclear and missile programs. The president's authority in this last area was significantly expanded in 2006 by the Iran, North Korea and Syria Nonproliferation Act. The Bush administration created an office in the Treasury Department which vigorously enforced sanctions rules, particularly on Iran, with a powerful effect on how much attention private firms paid to the long-standing but little-enforced U.S. rules.

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

**Obama administration:** The Obama administration continued and intensified the more vigorous enforcement of sanctions launched late in the Bush years. Many individuals and institutions were sanctioned for a wide variety of reasons, from human rights abuses to drug trafficking, as well as for proliferation. U.S. subsidiaries of foreign banks have paid more than $14 billion in penalties for violations of sanctions regulations, mostly relating to transactions with Iran.

In June 2010, Congress overwhelmingly passed and President Obama signed the Comprehensive Iran Sanctions, Accountability, and Divestment Act (CISADA), which among other things targeted the supply of refined petroleum products sent to Iran by non-U.S. firms. At the time, Iran imported about 30 percent of its refined gasoline because of the poor state of its own refineries. Several major international oil firms announced a cutoff of refined products to Iran because of CISADA's provisions.

The Iran Threat Reduction and Syria Human Rights Act of 2012 further targeted transport and insurance of Iranian oil, also authorizing sanctions on those engaging in censorship in Iran. Section 1245 of the National Defense Authorization Act for Fiscal Year 2012 put far-reaching restrictions on foreign banks dealing with Iran's Central Bank. Such restrictions were waived if the bank's home country significantly reduced its purchases of Iran's oil every 180 days. The Iran Freedom and Counter-Proliferation Act of January 2013 further extended the reach of sanctions to foreign firms. Foreign firms subject to penalties included those trading in or providing transport or finance services for Iran's oil and automobile industries, as well as those dealing in precious metals.

In November 2013, the Obama administration suspended or waived a number of sanctions after reaching an interim agreement with Iran over the nuclear issue. Perhaps the most important change was that the United States did not require foreign banks to make further reductions in oil purchases, below the 1.1 million barrel per day level then prevailing, to avoid the Section 1245 penalties.

## A new consensus

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

By late 2010, U.S. sanctions on Iran were no longer an outlier. Europe imposed tough sanctions on Iran that went well beyond those required by U.N. Security Council resolutions. Other major Western industrial countries imposed similar sanctions. As countries acted, major multinational firms decided that Iran's market was not worth the trouble. U.S. firms such as Caterpillar and GE decided that their foreign affiliates—which were not covered by U.S. sanctions—would pull out of Iran. So did foreign firms such as Siemens and Toyota.

Few policymakers in either the United States or Europe are actually enthusiastic about sanctions, especially after the experience with the crippling sanctions on Iraq between 1990 and 2003. Sanctions have gained momentum largely because the tougher alternative of using force is so unpalatable. Yet, sanctions have had some successes. One factor in the 1981 release of 52 U.S. Embassy hostages was Iran's desire to end the assets freeze and trade embargo so it could prosecute the war with Iraq. More recently, the impact of sanctions on Iran's economy was a major issue in the 2013 Iranian presidential elections. Hassan Rouhani's victory was in no small part due to his pledge to resume nuclear negotiations to get sanctions relief.

## State sanctions

In addition to sanctions imposed by the federal government, many states – by some counts, more than half – now restrict their pension funds from investing in firms active in the Iranian market or firms with ties to Iran's weapons programs, or human rights abuses. After the brutal suppression of protests following the contested 2009 presidential election, some states and cities debated whether to purchase goods from Western firms allegedly involved in assisting Iranian repression, such as internet censorship. New York's Department of Financial Services has actively sought stiff penalties for financial firms conducting non-permitted business with Iran, including penalties which go far beyond anything federal authorities proposed.

## Sanctions impact

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

Different policymakers and analysts stress different objectives. The many objectives they cite include:

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

Evaluating what sanctions accomplish depends on whether the benchmark is progress on the modest objectives, or full achievement of the far-reaching goals. The dramatic decline of the Iranian rial in early 2012 and Iran's sharp recession was widely attributed, in Iran as well as the West, to tough U.S. and E.U. sanctions. U.S. policymakers were persuaded sanctions were the key reason Iran returned to nuclear negotiations in 2013 prepared to compromise, which was among the most important aims of the sanctions.

Imposing sanctions has also carried costs. In the 1990s, U.S. sanctions created serious friction with Europe, which objected to both the policy on Iran and U.S. punitive measures on European companies. A crisis over ILSA was averted only when Washington agreed to waive ILSA on European investments in Iran; in return, Europe restrained export of dual-use items to Iran. By contrast, Europe has not complained about the broad reach of recent U.S. sanctions, which explicitly target foreign firms, presumably because Europe largely agrees about the appropriateness of such sanctions.

## Factoids

- Sanctions on Iran allow much more people-to-people exchange than embargos on Cuba. U.S. restrictions on exports and imports do not cover travel (or travel-related payments), donations of articles intended to relieve human suffering (such as food, clothing and medicine), gifts valued at $100 or less, or "informational materials" defined broadly to include films, posters, photographs, CDs and artwork.

- Some U.S.-Iran trade continues, especially in food. Iran is a large wheat importer; some years, it buys as much as $200 million in U.S. wheat. From 1998 to 2010, Americans could legally buy Iranian handicrafts and foods. U.S. purchases never reached $50 million in a year; the main item was rugs. Some Iranian products faced other restrictions: Caviar was limited by the international agreement for conserving the endangered Caspian sturgeon, and pistachios faced a stiff countervailing duty imposed after California pistachio growers complained about dumping.

- Since the 2008 financial crisis, banks have paid out more than $140 billion to U.S. regulators for a wide variety of infractions from manipulating interest rates to concealing bad mortgages, with U.S. branches of foreign-owned banks paying more than $14 billion in penalties for sanctions violations, primarily with Iran. As a result, many banks have decided to adopt a "derisking" strategy - that is, avoiding altogether transactions that could raise regulatory concerns. The strategy has led many banks to refuse to conduct even permissible business with countries under close regulatory scrutiny, including Iran.

- While Iran has often complained that the United States does not allow Iran Air to buy spare parts for its aging Boeings, in fact, the Bush administration issued a license for such exports. But as of early 2015, Boeing had made exactly one sale for a trivial sum.

- In 1992, before the Clinton administration toughened sanctions, the United States was Iran's sixth largest source of imports; U.S. exports were $748 million. In 2014, U.S. exports to Iran were $186.5 million.

## Useful resources

Periodic reports from the Congressional Research Service, written by Kenneth Katzman, explore the history of U.S. sanctions and proposals for additional actions.

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

## Trend Lines

- The pace and extent of sanctions relief was a major issue in the nuclear talks. Much of the debate was about U.N. and E.U. sanctions. But another important issue was U.S. sanctions relating to financial transactions, which greatly restricted Iranian banks' access to the global financial system and the Iranian Central Bank's access to $150 billion of its foreign exchange assets. Those restrictions arguably had the greatest impact on Iran's economy of any sanctions, unilateral or multilateral. Iran wanted those sanctions lifted quickly and fully; the United States wanted to tie sanctions relief to Iranian actions.

- While the President has the authority to waive or suspend all existing U.S. sanctions, Congress insisted that any relief from sanctions imposed by law (distinct from those imposed by executive order) be delayed until Congress can vote on the final deal. Congress was also interested in how much a nuclear deal would relax U.S. sanctions imposed partly for nuclear reasons, but also partly for other reasons. The Obama administration has made clear that it has no intention of asking Congress to end any legislatively mandated sanctions, arguing that Iran would first have to demonstrate a track record of compliance with its international obligations.
- Even after U.S. sanctions are lifted, banks may still worry about falling afoul of rules against deceptive financial practices in which many Iranian banks engage, such as concealing who is making a payment. Plus New York's Department of Financial Services and independent-minded prosecutors may go after banks even when the U.S. Treasury Department would not. And it is not clear how confident banks or companies will be that sanctions relief will be permanent. So it is by no means certain how much access Iran will have to major international banks.

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