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A Pyrrhic Victory: the History of the Sanctions War Against Iran

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Introduction: Two ‘Icons’ of Sanctions Warfare

Sanctions have become a powerful tool over the past century, wielded primarily by industrialized countries with advanced economies and technology to attain their foreign policy goals. The US imposed the most sanctions in the 20th and early 21st century: 109 out of 174. America’s economic superiority and leading role in global finance have allowed it to pressure weaker countries into making domestic and foreign policy concessions. The US, which has imposed sanctions on both its rivals and its partners and allies, is the ‘icon’ of sanctions warfare to aspiring countries. The US is also the force behind the majority of sanctions alliances, or groups of states that join US sanctions or support them in the UN Security Council.

There are also ‘icons’ among the target countries that have more or less adapted to life under long-term sanctions rather than abandoning policies. Iran, one such target country, has unparalleled experience of living under sanctions. The country is a unique case for several reasons.

First, various powers and organizations, such as the US, the EU, and the UN have imposed sanctions on Iran. Exterritorial sanctions have also barred Iran from cooperating with other countries. The only other country that has suffered more from the cumulative effects of sanctions is North Korea.

Second, sanctions were adopted for a range of political motives, such as military containment, concerns about Iran’s nuclear missile programme, allegations of terrorism, attempts to influence its domestic or foreign policy, or efforts to resolve concrete crises such as securing the release of hostages or prisoners of war. Iran is definitely in a class alone in terms of the range of sanctions it has endured.

Third, the types of sanctions against Iran have included restrictions on arms deliveries and the exports of oil and petrochemicals, huge fines on companies that cooperate with Iran, blocked financial services, frozen assets, visa restrictions, and the like. In short, all types of sanctions have been used against Iran.

Fourth, the case of Iran has shown that sanctions are a mixed bag. For example, sanctions forced Iran to make concessions regarding its nuclear programme and sign the Iran nuclear deal. However, the Trump administration is now demanding that the deal be renegotiated because Iran has not curtailed its ballistic missile and military development programmes. Iran has managed to prevent sanctions from causing internal divisions, but the recent social protests in the country are playing into the hands of those who want to increase pressure on Iran to effect regime change and transform the country's political system.

Fifth, unlike North Korea, which is a closed country with a highly idiosyncratic ideology, Iran is a more open society that appeals to investors, including EU companies. Iran is not a nuclear power, but it has created sufficient military capacities to protect itself from military intervention or airstrikes.

Sixth, Iran has tried a variety of methods to adapt to life under sanctions, such as working with so-called 'black knights', which are alternative buyers of its exports and alternative suppliers of investment. It also learned to exploit gaps between EU, US and UN sanctions and developed its own industrial and technological foundation.

The history of sanctions against Iran deserves close analysis in light of the growing sanctions pressure on Russia. Although Iran and Russia are different countries facing different sanctions paradigms, Iran's experience is meaningful if only because both countries have to contend with US sanction law.

The Precursor to Power Politics: from Mossadegh's Overthrow to Operation Praying Mantis

The history of sanctions against Iran goes back to the early 1950s, when Britain, supported by the US, boycotted Iranian oil and petrochemicals following the nationalization of the Anglo-Iranian Oil Company. Soon afterwards, the US and British intelligence services collaborated to overthrow Prime Minister Mohammad Mossadegh. Less than a year later, a consortium of companies incorporated as Iranian Oil Participants Ltd (IOP) brought Iranian oil back on the international market. The founding members of IOP included British Petroleum (40%), a group of US companies (40%), Royal Dutch Shell (14%), and Compagnie Française des Pétroles (later Total SA, 6%). This was a case when sanctions served as the precursor to a clandestine operation to overthrow the government and restore Western companies' ownership rights.

The modern period of sanctions began in 1979 in the aftermath of the Islamic Revolution and the diplomatic standoff between Iran and the US over the US diplomats being held hostage in the embassy. On 14 November 1979, President Carter signed Executive Order 12170 freezing Iranian assets in the US. In April 1980, Executive Orders 12205 and 12211 prohibited the exports of US products (excluding food and medicine) and the delivery of cargo to Iran. These orders also banned lending to Iran and the imports of Iranian goods.

The ban on Iranian imports delivered a heavy blow to Iran's oil sector. Before the 1979 Revolution, Iran supplied over 500,000 barrels of oil per day to the US, which the ban has reduced essentially to zero.[1] Iran agreed to concessions only after the death of Mohammad Reza Shah Pahlavi in the US. Iran demanded that the shah's extradition to stand trial in return for the release of the US hostages. Iran's concessions were made against the backdrop of the war against Iraq, as US sanctions greatly impeded Iran's efforts to supply and

[1] *Graaf T.V. The "Oil Weapon" Reversed? Sanctions Against Iran and US-EU Structural Power // Middle East Policy. 2013. Vol. XX, No 3.*

equip itself for the fight. Talks on the release of the US hostages were launched and on 19 January 1981 President Carter signed Executive Order 12282 lifting sanctions on Iran.

The hostage crisis highlighted two trends. On the one hand, Iran quickly adapted to the US restrictions on Iranian oil by selling it to other consumers. Tensions in the Persian Gulf hiked oil prices, which allowed Iran to make up for the loss of the US market. Meanwhile, Washington tried but failed to convince Japan and its allies in Western Europe to form a sanctions coalition against Iran. Japanese banks continued to cooperate with Iran, which cushioned the blow of the asset freeze in the US, and traders continued to buy Iranian oil despite higher prices.[2] Iran's trade with Western Europe flourished.

In other words, Iran took advantage of the US failure to create an effective coalition, a jittery market, as well as oil consumers' desire to buy more oil in preparation for new crises and growing prices. US pressure helped the new Iranian government rally the nation and strengthen its legitimacy, although confrontation with the US was not the only consolidating factor. Iranians' resolve was also fuelled by the failure of the US Special Forces' Operation Eagle Claw aimed to free the hostages, which deprived the Carter administration of a powerful source of leverage in negotiations.

On the other hand, the US market was closed to Iran. Even the lifting of the sanctions did not helped restore oil deliveries to the pre-crisis volume. Iranian oil exports to the US gradually increased to 50,000 barrels per day in 1987, which was still 10% of pre-revolution levels, and stopped altogether after 1991.

The next crisis in US-Iranian relations developed in 1987 against the backdrop of the 'tanker war' in the Gulf. On 29 October 1987, President Reagan signed Executive Order 12613 imposing sanctions on Iran for 'supporting terrorism as an instrument of state policy' (terrorist bombers, allegedly aided and abetted by Iran, blew up US barracks in Lebanon in 1984), as well as for conducting aggressive and unlawful military action against US-flag vessels and merchant vessels of other non-belligerent nations engaged in lawful and peaceful commerce in international waters of the Persian Gulf. This executive order prohibited the imports of Iranian goods and services into the US. By that

[2] *Ergin D. Dobycha: 'Vsemirnaya istoriya borby za neft, dengi i vlast' [The story of global struggles for oil, money, and power]. – M.: Alpina Pablisher, 2012. p. 760–763.*

time, Iranian oil deliveries were reduced to a trickle, and so the new sanctions were largely symbolic. By themselves, they could not force Iran to change its actions in the Gulf. So eventually the Americans used military force to bring Iran to heel. Operation Praying Mantis conducted in April 1988 is the largest naval battle since the Second World War. The Americans seized the oil platforms Iranians used for military purposes and successfully repelled Iranian air and naval attacks.

The 1987 sanctions are an example when sanctions are a precursor to military operations but themselves do not lead to meaningful changes in the policy of the target country.

Congress Joins the Action

Pressure on Iran mounted during Bill Clinton's presidency. For the first time ever, sanctions were imposed over Iran's ambitions to acquire weapons of mass destruction. On 15 March 1995, President Clinton signed Executive Order 12957, which prohibited US companies and citizens from contributing to the development of oil and gas resources located in Iran. Executive Order 12959 of 6 May 1995 upheld the ban on the imports of 'any goods or services of Iranian origin', as well as the exports and re-exports of US goods and technologies, including technical data or other information, to Iran. The order also prohibited US citizens and companies from investing in Iran or in property owned and controlled by the Iranian government. On 19 August 1997, Bill Clinton signed Executive Order 13059, which consolidated the provisions of Ronald Reagan's Executive Order of 1987 and Clinton's previous orders regarding sanctions against Iran.

A major element at that stage was the involvement of Congress in the sanctions policy against Iran. The US again attempted to internationalize this policy by encouraging its allies to join the sanctions. In 1996, the US Congress adopted the Iran and Libya Sanctions Act, which was renamed the Iran Sanctions Act (ISA) in 2006 as it no longer applied to Libya. The Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010, which amended the ISA, sought to prevent Iran from financing terrorism as well as its own nuclear, chemical, bacteriological and missile programmes.

The 2010 law primarily targeted Iran's energy sector or, more precisely, the oil production and processing industry. Furthermore, Congress committed the US president to rally international support to increase the sanctions pressure on Iran through UN mechanisms and bilateral agreements. Before that, the US president was free to act at his own discretion, but the 2010 law instructed him to submit annual reports to the Congress on the effectiveness of his diplomatic efforts. The Congress wanted him above all to convince the EU, South Korea, Japan, Australia, and Israel to adopt similar legal and administrative procedures against Iran.

More than that, the 2010 law introduced the exterritorial principle of sanctions enforcement, that is, foreign citizens and companies that violate the law are also subject to sanctions. It prohibited large investment in Iran's energy sector, the delivery of goods, services, and technologies for Iran's energy sector, as well as the exports of refined petroleum products to Iran, which, although a major oil producer, lacks refining capacity. The law also prohibited the exports of oil and LNG tankers and services involving the transportation of refined petroleum products to Iran, as well as insurance transactions involving these deals. The 2010 law also restricted the exports of products and technologies that could be used for Iran's weapons of mass destruction (WMD) programmes.

The Iran and Libya Sanctions Act and the presidential executive orders of the mid-1990s produced few diplomatic results. The ban on Iranian oil imports to the US only fixed in place the market situation that had emerged, because the US stopped importing Iranian oil long before that, while Iran was rapidly diversifying its markets. The attempts to apply exterritorial sanctions soured US relations with its allies, so that the Americans tended not to enforce the 2010 law against foreign companies. In other words, the sanctions remained largely unilateral and failed to force Iran to abandon its policy.

However, these US actions also created a major precedent and laid out possible means of pressuring Iran. The situation changed dramatically when the Americans again tried to internationalize the sanctions via the UN. This led to new fundamental amendments to the 1996 law.

UN Security Council Sanctions: Modest Results, Major Repercussions

The United Nations Security Council Resolution (UN SC) adopted its first resolution on Iran's nuclear and ballistic missile programme on 31 July 2006. In itself, the resolution was a diplomatic victory for the US. The issue the Americans raised a decade before was at long last addressed in a sustainable and legitimate international format. UN SC Resolution 1696 demanded that Iran to 'suspend all enrichment-related and reprocessing activities, including research and development'. The International Atomic Energy Agency (IAEA) was to provide exhaustive information regarding Iran's compliance with this resolution.

The other permanent members of the UN SC, plus Germany and the EU, hailed this resolution as a success, because they wanted the non-proliferation regime to be reinforced as well. The resolution broke up the US monopoly on the matter and allowed the above countries to actively contribute to the process. The resolution did not impose any sanctions on Iran but warned it that appropriate measures will be adopted under Article 41 of Chapter VII of the UN Charter if Iran would fail to comply with this resolution.

When Iran, as expected, refused to comply with UN SC Resolution 1696, the UN SC approved sanctions against Iran and subsequently expanded them. Resolution 1737 adopted in December 2006 prohibited all countries from supplying materials that could contribute to Iran's nuclear and ballistic missile programme, from transporting this materials to Iran and from conducting the related financial transactions. The resolution also provided the list of Iranian entities and persons whose movement abroad must be restricted and whose assets must be frozen. Initially, the list was quite modest: 12 persons and 10 entities. But in March 2007 the UN SC adopted Resolution 1747 that expanded the list to include not just entities and persons involved in the Iran's nuclear and ballistic missile programme, but also the companies and individual leaders of the Islamic Revolutionary Guard Corps (IRGC). The resolution also prohibited arms imports from Iran, restricted the supply, sale or transfer of nearly all types of conventional arms to Iran, as well as urged all member states and international financial organizations to refrain from issuing grants, financial assistance, and concessional loans to Tehran, except for humanitarian and developmental purposes.

The sanctions list was further expanded in March 2008. Resolution 1803 called on the member states to restrict the entry or transit of certain persons and entities in their countries. The resolution also called on the member states to exercise vigilance over the activities of their financial institutions with all banks domiciled in Iran, and with their branches and subsidiaries abroad, so as to prevent the financing of Iran's nuclear and ballistic missile programmes. The Financial Action Task Force (FATF) issued a guidance regarding financial measures against Iran. The resolution also allowed the member states to inspect cargoes to and from Iran carried by aircraft and vessels provided there are reasonable grounds to believe that they may be transporting prohibited goods.

However, these measures failed to stop Iran's nuclear programme. By 2010, Iran produced its first batch of uranium enriched to 20% and established the Fordow Fuel Enrichment Plant near Qom. In response, the UN SC adopted Resolution 1929 tightening sanctions on Iran. The resolution prohibited any foreign investment in the creation of nuclear and missile materials and technology. In addition to a ban on the supply of conventional weapons to Iran, the resolution also prohibited the training of Iranian military personnel abroad and extended the list of designated persons and entities, including transport companies. The list also included several foreign transportation companies. In addition to the inspection of cargoes to and from Iran at seaports and airports, the resolution also allowed inspections of vessels on the high seas with the consent of the flag state, and prohibited the provision of bunkering services to Iranian-owned or -contracted vessels that are suspected of transporting prohibited goods. The resolution also expanded financial sanctions to include all banks that could be suspected of contributing to Iran's nuclear programme. These banks were not allowed to open branches and subsidiaries abroad or engage in any transactions with other financial institutions. Unlike the previous resolutions, Resolution 1929 made the connection between oil revenue and the financing of Iran's nuclear programme. This provision was subsequently used by individual countries to justify their sanctions against Iran's energy sector.[3]

[3] *Graaf T.V. The "Oil Weapon" Reversed? Sanctions Against Iran and US-EU Structural Power // Middle East Policy. 2013. Vol. XX, No 3. P. 148.*

Washington’s 3F Attack: Frontal, Flanking, and Functional Sanctions

Parallel with the UN SC resolutions, the US launched a large-scale sanctions assault involving significantly harsher measures. The UN sanctions dramatically improved Washington’s chances of creating a more stable international coalition against Iran. US actions can be divided into frontal, flanking, and functional assaults. The frontal assault targeted the energy sector, which provides financial resources for Iran and its strategic programmes, as well as trade and the industries that are directly or indirectly involved in Iran’s nuclear and defence programmes. The flanking assault included the application of financial sanctions to enhance the effect of energy and other sanctions. The success of the frontal assault depended on the establishment of a sustainable coalition of states that refused to import Iranian oil, while flanking sanctions could encourage other states to join the US-led coalition. And lastly, the functional sanctions concerned such issues as human rights or support for organizations that are designated as terrorist in the US. These new sanctions were actively supported by Congress and the US administration.

In 2010, Congress further expanded the sanctions by adopting the Comprehensive Iran Sanctions, Accountability, and Divestment Act (PL 111–195; CISADA) and amending the Iran Sanctions Act (ISA, 1996). CISADA includes all complaints against Iran, such as the nuclear and ballistic missile programmes, the build-up of conventional arms, support for Hezbollah, human rights violations, the detention of US citizens, as well as Iran’s rejection of cooperation offers from the US and UN SC member states. Despite the problems created by the 1996 Iran and Libya Sanctions Act (ILSA), the US tightened exterritorial sanctions against Iran by prohibiting investment in its energy sector and the supply of refined petroleum products to the country. In keeping with the UN SC resolutions, CISADA prohibited the supply of materials and technologies that could be used in Iran’s nuclear and ballistic missile programmes or for advancing its conventional weapons capabilities.

This act prohibited the imports of Iranian goods to the US and the exports of US goods to Iran, and froze the assets of all Iranian citizens suspected of involvement in Iran's nuclear programme. CISADA imposed sanctions on all Iranian banks and limited cooperation with any foreign bank that engaged in transactions with suspected Iranian financial institutions, entities or persons, or with those whose property or interests in property had been blocked. CISADA committed the US president to compile a list of Iranian officials and other individuals associated with human rights abuses and subsequently to freeze their assets and impose entry restrictions on them. Any company involved in federal acquisitions in the US was obliged to report on compliance with the sanctions regime. It also committed the US president to identify countries of concern with respect to the diversion of certain goods, services, and technologies to or through Iran and to influence these countries by denying export licenses to them.

Two years later, Congress adopted the Iran Threat Reduction and Syria Human Rights Act of 2012 (PL 112–158), which delivered an even more powerful blow to Iran's energy sector when it became clear that Iran had survived the oil and gas sanctions by selling at reduced prices. The new act attempted to solve the problem of suppressing Iran's oil exports by restricting the number of consumers, supporting alternative producers (mostly Saudi Arabia) and offering preferences to make up for the losses the traditional buyers of Iranian oil would sustain. The sanctions also covered the owners of tankers that transported oil from Iran and companies that insured oil deliveries. The Iran Threat Reduction and Syria Human Rights Act also imposed sanctions on persons who purchase, subscribe to, or facilitate the issuance of Iranian sovereign debt. This act also stipulated harsher sanctions, including exterritorial ones, in all other instances covered by the previous acts, such as transactions with Iran's Republican Guard Corps and human rights abuses.

The US administration acted in the same vein. Between 2010 and 2013, President Barack Obama signed a series of executive orders (13553, 13574, 13590, 13599, 13606, 13608, 13622, 13628, and 13645) to ensure the implementation of the above acts. For example, Executive Order 13590 imposed sanctions on the companies that sold equipment for Iran's energy sector.

The 3F Sanctions in Action

Washington's big diplomatic victory was the EU decision taken in January 2012 to prohibit the imports, storage, and transportation of Iranian oil. Since the EU bought 25% of Iranian oil, this was a very painful blow. The EU made the following arguments to support its decision. First, Iran had failed to comply with the UN SC resolutions. Second, the US Treasury had fined some European banks for violating sanctions. Washington demonstrated its resolve to punish the violators and to apply exterritorial sanctions even if this created tensions with its allies. And third, the harsh rhetoric of Iranian President Mahmoud Ahmadinejad fuelled EU anger.

However, the EU's actions cannot be considered decisive, because the main consumers of Iranian oil are China, Japan, India, and South Korea. They could have become the 'black knights' who demanded new discounts for ignoring the sanctions. This could have been an acceptable solution for Iran amid the growing oil prices. Besides, Washington was unlikely to pressure such big consumers for fear of political risks. Everyone but the US stood to gain from this scenario. Asian consumers would buy oil at a discount, Iran would preserve its markets, and a high oil price would help Iran make up for the required discounts. But the US hit on an unusual solution: two dozen large buyers of Iranian oil would be exempt from sanctions if they significantly reduce their purchases of Iranian oil.

The results were immediate. In 2012, Iran's oil exports plunged by 40% compared with the previous year. Some buyers, for example India, cut their purchase even more significantly than the Americans demanded. The financial sanctions played a role as well. The banks that were involved in oil transactions could be cut off from the US financial system. And they made the predictable choice between the Iranian and US markets. In other words, the US made smart use of its dominant position in the global financial system. A similar scheme was applied to companies in EU countries that insured oil tankers. At the same time, American diplomats and Treasury staff worked to raise awareness in Europe, Asia, and the Gulf countries. The frontal assault on Iran's oil exports was reinforced with flanking sanctions in the financial and insurance sectors. Meanwhile, Saudi Arabia, Iraq, Libya, Nigeria, and other countries increased oil production to take over Iran's share of the market.[4] Taken together, this slowed Iran's adjustment to the sanctions through customer diversification, discounts, the search for alternative shipping companies, and the use of loopholes in international finance.

A Pyrrhic Victory?

Eventually, Iran agreed to discuss the nuclear problem, and soon afterwards a Joint Plan of Action was signed in Geneva in November 2013. Under this interim agreement, Iran agreed to freeze parts of its nuclear programme in return for the lifting of some sanctions. Following 18 months of fierce negotiations, Iran and P5+1 (China, France, Russia, the UK, the United States plus Germany) met in Vienna on 14 July 2015 to sign the final agreement known as the Joint Comprehensive Plan of Action (JCPOA). On 20 July, the UN Security Council adopted Resolution 2231 unanimously approving the JCPOA. Its implementation began on 16 January 2016 after the IAEA verified Iran's changes to its nuclear programme in keeping with the JCPOA. The majority of UN sanctions have been lifted, excluding the temporary bans on the delivery of arms, missile technology, and nuclear and dual-use items to Iran. The EU has lifted its nuclear-related sanctions as well. President Obama issued Executive Order 13716 lifting the heaviest sanctions from Iran.

It appeared that the countries that initiated the sanctions achieved their main goal. Iran has shut down its nuclear weapons programme, and the IAEA is closely monitoring Iranian civilian nuclear projects. Punishment for violating the JCPOA includes the reintroduction of sanctions. Washington should be satisfied with winning its decades-long sanctions war against Tehran. The other parties to the talks, including Moscow, should be satisfied as well. Russia has reaffirmed the leading role of the UN Security Council in dealing with this problem, as well as its international standing.

However, Tehran also came out a winner. Although it abandoned its nuclear weapons programme, it upheld its right to peaceful nuclear energy.

[4] *Graaf T.V. The "Oil Weapon" Reversed? Sanctions Against Iran and US-EU Structural Power // Middle East Policy. 2013. Vol. XX, No 3. P. 154–155.*

Iran has retained freedom in domestic and foreign policy and has returned to the energy market. Many financial restrictions have been lifted from Iran, which has regained access to its blocked assets.

All this is a cause for serious concern in Washington. Donald Trump calling Obama's Iran policy a failure is more than just a figure of speech from an eccentric president. Back during the nuclear negotiations between Iran and the P5+1, some members of the US Congress insisted on harsher sanctions, and there was a certain logic to their position.[5] By lifting the sanctions on Iran, the US and the international community have essentially forfeited a powerful source of leverage. It would be impossible to recreate such a broad coalition exerting consolidated pressure on Iran's energy sector. Sanctions would have kept Iran on a short leash and allowed the US to attain its other goals, which will be extremely difficult to do now.

Public Law 115–44, Countering America's Adversaries Through Sanctions Act (CAATSA), which was passed in August 2017 against Russia, North Korea, and Iran, targeted Tehran over human rights violations, supporting terrorism and the ballistic missile programme. However, this law is unlikely to be effective in the current situation. Moreover, the US position on renegotiating the Iran nuclear deal may put it in the minority.

[5] *Maloney S. Sanctions and the Iranian Nuclear Deal: Silver Bullet or Blunt Object? // Social Research, Vol. 82: No 4, Winter 2015. P. 898.*

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