



SANCTIONS IN IRAN: ARE THEY EFFECTIVE?

November 2011

Since 1987, the United Nations, the United States, and the European Union, among others, have levied significant economic sanctions against Iran. The goal of these sanctions is to force Iran to suspend uranium enrichment and allow unfettered supervision of its nuclear operations. To meet these goals, the sanctions regime has imposed numerous restrictions, including limitations on foreign trade and business with Iran and Iranian-owned companies. The latest U.S. sanction, labeled the Comprehensive Iran Sanctions Accountability and Divestment Act (the "CISADA"), imposes a new array of penalties aimed at drying up foreign investment in Iran, and blocking Iranian access to the U.S. financial system.

Despite these economic penalties, Iran's leaders have not altered their nuclear agenda. In what can only be seen as a snub to the current sanctions regime, Iran will be launching its first nuclear power plant shortly. Leaders around the world must now decide whether stiffer penalties will be an effective course of action, despite the failures of the current sanctions program.

The sanctions against Iran continue to punish foreign investors doing business with Iran by cutting off access to international banking services, capital markets, international airspace and waters for commercial trade. Because of these sanctions, major international firms are unwilling to risk their position in the global market to do business with an increasingly isolated Iran. This has caused a drastic decrease in U.S and European investment in Iran's petroleum sector. The Iranian economy, which sits on the world's second largest reserve of both oil and gas, undoubtedly feels the brunt of this decline in U.S. and European capital.

However, Iran continues to work around these sanctions, relying on black market goods and services to complete their deals. For example, Iranians have resorted to using banks and shell companies throughout the Middle East to avoid sanctions. Additionally, Iranian banks and corporations now remove their Iran-based names and locations from transaction documents. Iran has also increased business with nations that are not on-board with the current sanctions regime. China has nearly \$100 billion tied up in Iranian oil and gas reserves. Russia's economic interest in Iran is comparable.

Notwithstanding the capital influx from Russia and China, sanctions continue to impair Iran's ability to conduct regular economic activity in the global marketplace. Such continued isolation may eventually persuade Iran to suspend its quest for nuclear weapons through political, economic and diplomatic means. However, as long as the leaders of Iran have nuclear ambitions, the primary goal of the sanctions regime will not be reached.

World leaders believe that an unrelenting sanctions regime will force Iran's government to recognize the economic costs of continuing to pursue a nuclear program. They also believe that tough sanctions will deter other nations from pursuing nuclear arms. However, the success of the current sanctions against Iran cannot be easily measured. These economic sanctions have not stopped Iran's leaders from moving forward with a nuclear program. They have instead prompted Iranians to open new, thriving black markets for prohibited goods and services. They have also caused Iranian leaders to look towards China and Russia to satisfy Iran's need for foreign capital. Only time will tell whether a new round of aggressive sanctions will be effective and cause Iran's leaders to finally turn away from their ongoing nuclear agenda.