Insight

Iran Sanctions: Overview

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U.S. sanctions against Iran have accrued and evolved over time.

During the 1980s and 1990s, U.S. sanctions were intended to address Iran's support for terrorism. Today's sanctions seek to persuade Iran to abandon its nuclear program, and to a lesser degree support human rights and political change. Earlier sanctions tended to focus on trade directly supporting Iran's military and weapons of mass destruction (WMD) programs. More recent efforts also seek to deprive the regime of energy revenues, sever its financial relationships, and punish key Iranian individuals. A sanctions regime that began by disrupting economic ties between the U.S. and Iran now increasingly targets third parties that are neither American nor Iranian. Decades of unilateral U.S. sanctions have been strengthened through parallel moves by the European Union and others.

The first American sanctions against Iran were a trade and travel embargo imposed by President Carter and was eased as part of the settlement to release U.S. embassy hostages.

Under the Reagan Administration, Iran faced new, more stringent sanctions. U.S. exports of military and dual-use items were restricted when Iran was classified a state sponsor of terror in the wake of the 1983 bombing of the U.S. Marine Barracks in Lebanon. Later, to address criticism for purchases of Iranian oil for the U.S. Strategic Petroleum Reserve, as well as Iranian attacks on U.S.-flagged vessels, Reagan banned all Iranian imports to the U.S. through Executive Order 12613.

However, Iran continued to import from the U.S., and U.S. law permitted investment there. An oil deal announced in 1995 between Iran and Conoco prompted President Clinton to issue Executive Order 12959, banning all U.S. trade and investment in Iran. Exceptions are made for food, medicine, civilian airplane parts, and personal remittances and gifts. In fact, Iran still imports a considerable amount of wheat from the U.S. Unlike Cuba, Americans may travel to Iran.

With near-total bans on trade and investment between the U.S. and Iran, Congress began pursuing "extraterritorial sanctions" to target foreign firms doing business with Iran. Extraterritorial sanctions are controversial, as they represent an effort to control the activities of firms beyond our borders.

In 1996, Congress passed the Iran and Libya Sanctions Act (ILSA), which mandates penalties for any foreign company that invests over $20 million in Iran's energy sector or that sells advanced weapons to Iran. The administration may choose from a list of penalties limiting that company's imports to the U.S., loans or credits from U.S. financial institutions, U.S. government procurement opportunities, export licenses, Export-Import Bank assistance, and other measures. Alternatively, it can issue a waiver if deemed appropriate.

While ILSA may have deterred some foreign investments in Iran, it was ultimately toothless. The U.S. made only one determination under the law, invoking the national interest to waive penalties against a French company. In fact, between 1999 and 2010, over 20 foreign investment projects were announced in Iran, yet not a single company was penalized.

To tighten the ILSA sanctions (now called ISA due to the lifting of restrictions on Libya), Congress passed the Comprehensive Iran Sanctions, Accountability, and Divestment Act (CISADA) in 2010. CISADA strengthens ISA by mandating a time limit for the administration to make determinations about potentially sanctionable activity. It imposes sanctions on foreign firms that sell gasoline to Iran – despite being one of the world's top petroleum-producing countries, Iran imports gasoline for domestic use due to inadequate refining capacity. The legislation contains a "special rule" that allows firms to avoid sanctions in exchange for a pledge to end their dealings with Iran in the near future. CISADA also sanctions firms that sell crowd control or internet monitoring equipment to the Iranian government, and imposes travel bans and assets freezes for certain Iranian human rights abusers.

In September 2010, the Administration for the first time sanctioned a company for trading Iranian oil, while issuing four exemptions under CISADA's "special rule." More than a dozen other determinations have been made since.

Last year, over the objections of the Obama Administration, Congress passed legislation (Section 1245 of P.L. 112-81) that mandates sanctions against foreign banks that deal with Iran's Central Bank, reasoning that Iran's Central Bank ultimately abets Tehran's weapons programs and terrorist activities. The legislation provides a renewable 180-day exemption for banks in countries that have "significantly reduced" their purchases of Iranian oil. The Obama Administration has issued exemptions for twenty countries so far. Some analysts believe the exemptions are proof of the bill's success in reducing Iran's oil exports. Other think they have weakened the bill, particularly the questionable exemption for China.

Numerous other laws and executive ord
ers add to the list of extraterritorial sanctions against Iran. Executive Order 13382 places sanctions on individuals and firms supporting Iran's WMD program. Executive Order 13438 penalizes Iranians making trouble in Iraq.

The Iran-Iraq Arms Nonproliferation Act and the Iran, North Korea, Syria, Nonproliferation Acttarget foreign firms and individuals that aid Iran's WMD programs. The Iran Threat Reduction and Syria Human Rights Act , which became law in August, further tightened extraterritorial sanctions related to Iran's WMD program, energy sector, and human rights.

For two and a half decades, American sanctions on Iran were unilateral and Iran continued to do business with the rest of the world. However, this uneasy peace began to unravel asIran escalated the rhetoric regarding its burgeoning nuclear program. Between 2006 and 2010, the UN Security Council Resolutions passed several resolutions imposing multilateral sanctions on Iran. These sanctions are not designed to cripple Iran economically, but to deprive the country of inputs that could benefit its WMD program and to punish certain Iranian officials.

After years of opposition to U.S. sanctions, European policies increasingly are harmonizing with ours. In 2010, the European Union (EU) banned investments, technical assistance and technology transfers to Iran's energy and financial sectors. In January 2012, the EU announced it would stop purchasing Iranian oil and would prohibit insurance for Iranian oil shippers. In March, the Belgian-based SWIFT banking network blocked Iranian banks from using its services to transfer funds.

The increased effectiveness of multilateral and extraterritorial sanctions is hurting the Iranian economy as never before. Iran's oil exports have declined sharply, from 2.2 million barrels per day last year to 860,0000 barrels per day in September. The IMF expects Iran's economy to contract by at least 0.9 percent in 2012 and inflation rates to rise to 25 percent. The Iranian rial has lost two-thirds of its value against the dollar during the past 15 months. Tehran is losing an estimated $15 billion in export revenues every quarter. Some believe Iran could run out of foreign exchange reserves within a matter of months.

The economic impact of sanctions is unmistakable, but their political efficacy is unclear. Iran has yet to give up its nuclear program or abandon its support for terrorism. The mullahs have not fallen from power. Global consensus on sanctions is a worthy goal and could yet prove fruitful – but we must not mistake the means for the ends.