



Will Sanctions Against Iran Work This Time?

Jeffrey J. Schott says carefully targeted sanctions could impede Iran's nuclear program and energy infrastructure, but they are unlikely to change Iranian leaders' political agenda.

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Steve Weisman: A deadline for Iran to comply with a request to suspend its uranium enrichment has come and gone as of January 2010.

This is Steve Weisman at the Peterson Institute for International Economics, with Jeffrey Schott, senior fellow at the Institute, to discuss what comes next on sanctions against Iran. Thanks for joining us, Jeff.

Jeffrey Schott: Thank you, Steve.

Steve Weisman: Iran's failure to comply with the demands of the United States, Europe, and a host of other countries has raised the possibility of tighter sanctions against Iran by the United States—possibly by the United Nations Security Council. Jeff, you've studied this issue for many years. What's in the offing?

Jeffrey Schott: Well, the politicians will insist on doing something, and the response will be to ratchet up the sanctions that have been in place for more than 25 years. The difficulty will be to develop a sanctions regime that actually has some impact on Iranian policy. And so far, that has been a very difficult thing to do.

Steve Weisman: Have the sanctions had an economic effect and placed pressure on Iran in the last 25 years?

Jeffrey Schott: The sanctions over the past 25 years have evolved quite dramatically, though the causes have been quite similar. In fact, if you think about why we started imposing sanctions against Iran back in the early 1980s, it was because of their support of terrorism; later because of their ambitions to develop nuclear weapons. We have tried to squeeze the Iranian economy by limiting the growth in their energy sector. And that has been the main thrust of US sanctions policy for the past two decades. During that time, Iranian production has not grown as much as it otherwise would have. But Iran is still producing slightly more than it did a decade ago.

What has changed, however, is that the world oil market is significantly different and global demand and supply balances are much tighter than they were a decade ago; and that gives Iran a great deal more leverage over us compared to a decade ago.

And so the thought of tightening the sanctions and squeezing the Iranian oil sector has to be viewed much more discreetly than the blunderbuss approaches that we used in the past.

Steve Weisman: What about the talk of sanctions on the exporting of refined oil products—especially gasoline—back to Iran, which relies on imports for gasoline for its cars and other daily uses. What’s the likelihood of that happening on this round?

Jeffrey Schott: The likelihood is very great that the Congress will insist on US sanctions in that regard.

Steve Weisman: But will they have a real effect? I mean we don’t export gasoline to Iran ourselves.

Jeffrey Schott: It will be very difficult to enforce those sanctions and get other countries to comply with them.

Steve Weisman: What are the main suppliers for Iran? India is one, isn’t it?

Jeffrey Schott: There is a desire to build energy infrastructure in the region and Iran is working very closely with India on pipelines. Other countries are also trying to invest more in Iranian production, both onshore and offshore, and develop liquefied natural gas deposits. And China has been a big player in that. Japan is also involved. And it would be very difficult to see those countries squeeze Iranian energy sector very tightly, in a way that could cause Iran to countersanction the “sanctioneers.”

And indeed, the real risk here is that if we try to squeeze Iran in an area where it is vulnerable—and it is vulnerable to cutoffs or reductions in supply of petroleum products such as refined gasoline—then the reaction may be that they strike back and limit the amount of exports of crude petroleum that they send into world markets, which could have a dramatic effect on world prices at a time of very tight oil supply-demand balances.

Steve Weisman: Let me ask you about the financial sector. Under the most recent President Bush, the Treasury department achieved some success in curbing financial transactions, especially with European companies and banks with Iran. Is that a useful avenue to pursue or has the limit been reached to those kinds of sanctions?

Jeffrey Schott: Well, those types of sanctions have had some effect in constraining the growth of business with Iran. There is a good argument though, that the actions of the Iranian government themselves and the economic mismanagement of the Iranian economy have had a much greater impact on deterring investment in the Iranian energy sector.

So the question is, for what purpose are we trying to squeeze Iranian oil production? It is not going to limit the amount of resources they have available to buy components needed to produce nuclear weapons. And indeed if the world market price of oil goes up, because of any instability in the region, they will likely reap the benefits of those disturbances.

So what we have argued instead is to try to get international agreement on constraining or restricting the flow of components and resources needed to develop nuclear weapons to Iran. And that is an area in which there is a greater hope of cooperation with the major countries that would have to sign on, to such an international accord, including China, including Russia, Japan, and the European Union.

Steve Weisman: Is this high-tech type of infrastructure?

Jeffrey Schott: That's correct.

Steve Weisman: What about the Iranian Revolutionary Guard, which is said to be the target of interest by the State department, the Treasury department in this round of sanctions? Can the Guard—which actually is not just a military operation but a business that runs a lot of businesses in Iran—be targeted as some in the administration suggest?

Jeffrey Schott: To some extent, it can be targeted. But will it have a coercive effect on policy? And it can reduce the financial benefits of those operations, but will it constrain a national policy of pursuing the development of nuclear weapons? That seems to me, too big a national policy goal to be deterred by a reduction in profits, by targeted companies.

Steve Weisman: A final question, of course, about the political instability of Iran. A year or two ago, Iran's influence in the region and its national unity were strong. Now, at least it's more divided than it's been in many years. Are sanctions a good idea at a time when the Iranian people themselves are growing dissatisfied with their own government? Could they backfire?

Jeffrey Schott: They could backfire, if they cause a lot of economic harm and lead to a nationalistic backlash. But if you maintain targeted sanctions on the nuclear program, it's not going to have an impact on the general public. And the idea of those types of sanctions, which are never foolproof—all sanctions nets leak very dramatically, even the most comprehensive sanctions. The ones we imposed against Saddam Hussein had major leaks.

But if you can use those sanctions to delay and constrain the growth of the nuclear program in Iran, you buy time for a hopefully more favorable political development in that country, which could lead to leadership that does not place such a high value on becoming a member of the world's nuclear club.

Steve Weisman: Jeff Schott, thank you very much. That's very interesting.

Jeffrey Schott: Thank you, Steve.

