

FRESH SANCTIONS ON IRAN: *Will these help?*

Kingshuk Chatterjee

By all reckoning, the latest round of UN sanctions on Iran (Resolution 1929, 9th June 2010), backed up by further extension and expansion of the scope of US sanctions (June 2010) and imposition of EU sanctions on 26th July 2010, should make life very difficult for the Islamic Republic. The continued tightening of the sanctions regime indicates the serious concerns that Tehran have aroused over the development of its nuclear programme. Iran professes its commitment to only a civilian nuclear programme in conformity with its obligations under the Nuclear Non-Proliferation Treaty (NPT); a large number of states of the international community suspect Iran of developing a military programme behind the cover of its legitimate civilian one. Tehran's protestations of innocence of the charge have regularly been dismissed by most of its neighbours, and even the International Atomic Energy Agency (IAEA) has not been fully satisfied on this point by Tehran. The issue has generated a set of proposed responses from various members of the international community, ranging from extreme options of surgical strikes against Iran's nuclear facilities (favoured by Israel, and under consideration in some segments of the US administration), through moderate options of international sanctions regime (favoured by most of the states, including USA and the EU) to the softer options of persuasion by continued and growing diplomatic engagement (China and Russia). Over the past two years, international opinion has steadily drifted towards a tight sanctions regime, reflected in the UN Resolution in June 2010 and that of the EU in July. Valid questions are, however, being raised about the efficacy of the international sanctions regime.

The Islamic Republic of Iran has had to face major economic adversities ever since the US Embassy hostage crisis during the heady days of the Islamic revolution of 1979, when Washington imposed economic sanctions on Tehran, freezing about \$12 billion of Iranian assets in the USA. Subsequently while some of the assets had been released, US administrations from that day to this have continued to impose sanctions on the Islamic Republic, making it difficult for companies dealing with Tehran to associate with or operate in the USA. This has prevented a large number of companies over the years from dealing with the Iran, thereby preventing Iran's complete integration into the international economy. Nevertheless, the liberalisation of Iranian regime from the 1990s under Presidents Rafsanjani and Khatami had brought about at least a partial integration, particularly with the policy of constructive engagement pursued by Berlin, Paris and Moscow. When the Iranian nuclear programme first came under the scanner during the Khatami era, Tehran earned quite a bit of goodwill by putting the programme on hold pending some kind of a settlement with the international community.

The situation began to deteriorate around 2006, when motivated by domestic political considerations, President Ahmedinejad resumed the stalled nuclear programme. The resumption of the programme resulted in the UN Resolution 1737 (December 2006), imposing sanctions targeting imports made by Iran's nuclear establishment, and its financial assets. Tehran's persistence with the programme invited further sanctions by means of UN resolutions 1747 (banning Tehran's arms exports and ban on travel by people suspected of involvement with the programme) and 1803 (encouraging scrutiny of Iranian financial institutions and banks, and authorising cargo ships and planes bearing material for Iran's nuclear industry). The latest round of sanctions imposed by UN Resolution 1929 prohibits sale of military

hardware to Iran (such as attack helicopters, missiles) and tightening regulations pertaining dealings with Iranian banks suspected of involvement in Iran's nuclear industry.

There are, however, serious concerns about the efficacy of the sanctions that have been put in place. Hardline observers believe that nothing short of crippling economic embargo, particularly one on Iran's sale of oil, is going to be of any use in bringing Iran back to the path of meaningful negotiation. Former advocates of the diplomatic option, such as Berlin and Paris, also have come around to this position, largely owing to the obduracy of Tehran. This was the reason why US, UK and France pushed real hard for harsh economic sanctions. However, as it has been persistently from 2006, Beijing and Moscow have barred the way. Accordingly, soon after the UN sanctions, USA extended the scope of its own sanctions regime by targeting organisations transacting with Iran's petroleum industry. Moreover, this time round USA has tried to go beyond the UN by persuading its allies around the world to lean harder on Tehran.¹ Largely as a result of this persuasion, the EU topped up the UN sanctions with its own version in 26th July 2010, designed to prevent investment, assistance and technology transfer by European companies in the oil and gas sector in Iran.

Vindicating the position of the hardline observers, recent data reveal that EU sanctions have begun to take their toll to some extent. The London-based insurance giant, Lloyds, controlling 15-20% of the global maritime insurance sector, has recently refused to insure vessels headed for Iran, affecting inward and outward movement of oil and gas from the shores of Iran. One of the immediate impacts in the month of July 2010 has been that the number of vessels carrying refined petroleum into Iran has dropped. While Iran is the fifth largest exporter of crude in the global market, its own capacity of refining the crude is inadequate for its own needs, compelling it to import 40% of its petroleum requirements. Reliance, the Indian petroleum outfit, has nearly halved its trade in Iranian crude for the month of July, allegedly under unofficial persuasion.² The uncertainty has resulted in a drop of about 75% in Iran's petrol imports in the month of July, without there being a corresponding fall in the demand. Clampdown has begun also in the UAE, particularly the port of Dubai, the traditional conduit for trade (both legitimate and illicit) with Iran since 1979 – the prospect of being blacklisted by US and EU is forcing a rethink of strategies upon companies dealing with the Iran.³

So, why does Tehran appear unfazed, or at least not quite crumbling in the manner that the West had hoped? One reason happens to be that the nub of the UN sanction continues to be in the realm of military hardware. Ever since 1979, Iran has learnt to live without military hardware supplied by the western powers; supplied to an extent by Russia and China Iran has managed to keep its crumbling arsenal of military hardware at a tolerable level. The value the Iranians have managed to add has been in the arena of missile technology, addressing most of its security concerns.

A second reason is probably that sanctions imposed by the EU, had they come a decade earlier, would have had a major impact on Tehran; but in 2010 they do not have the sting they would have had in

1 <http://news.bbc.co.uk/2/hi/americas/8625621.stm> [accessed on 31st July 2010.]

2 <http://www.reuters.com/article/idUSTRE66D13F20100714> [accessed on 31st July 2010.]

3 <http://www.bbc.co.uk/news/business-10779331> [accessed on 31st July 2010.]

1995-99. In 1995, the then EU accounted for 47% of Iran's crude exports; today it stands at 25%. By contrast, Iran's exports to Asia have risen from 23% to 36%.⁴

The third reason is probably the China factor in Tehran's calculations. China alone imports nearly 11-13% of Iran's crude, and in March 2010 surpassed EU as Iran's single-largest trading partner, with official trade standing at \$29 billion (second to EU's \$35 billion) plus \$7 billion as re-exports through UAE.⁵ China's condemnation of the unilateral EU sanctions was swift and scathing. Almost as a gesture of retaliation, it would seem, China announced on 31st July 2010 investments worth \$40 billion in Iran's oil and gas industry, and unfolded plans to build as many as 7 refineries, nearly doubling Iran's existing refining capacity with its 9 principal refineries.⁶ In the month of July 2010, at least one of the three vessels carrying petroleum into Iran was owned by the Chinese firm Unipecc, a subsidiary of the giant Sinopec. Given the existing commercial trajectory of these and other Chinese companies, EU and US sanctions are largely irrelevant to them.

Thus, it is not easy to assert that the fresh round of sanctions is finally going to break Iran's resistance on the nuclear issue. Domestic political factors as well as the growing financial and economic problems of the regime certainly make it appear likely that Tehran might be persuaded to climb down from its present position. But the sanctions would probably be at best of peripheral significance in the process, and would most likely leave China the predominant international player in Tehran's foreign policy considerations.

(The author is a Lecturer in the Department of History, Calcutta University, and is associated with the Institute of Foreign Policy Studies, Calcutta University.)

4 <http://www.bbc.co.uk/news/world-middle-east-10727616> [accessed on 31st July 2010.]

5 http://www.upi.com/Science_News/Resource-Wars/2010/02/09/China-passes-EU-in-trade-with-Iran/UPI-55541265737793/ [accessed on 31st July 2010.]

6 <http://www.googlenews.com/hostednews/afp/> AFP China invests \$40 bln in Iran oil, gas minister.mht [accessed on 31st July 2010.]

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