

# THE TROUBLE WITH SANCTIONS

American Policy is Devastating Iran's Economy—  
and Increasing the Risk of War

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Sanctions on Iran have taken on a life of their own as the relationship between Washington and Tehran has steadily deteriorated. Sanctions were initially imposed nearly thirty-four years ago in response to the Iran hostage crisis—when revolutionaries seized the U.S. embassy in Tehran and held diplomats hostage for 444 days. Today, the U.S.-Iran conflict has expanded into numerous areas, but the United States and many of its allies insist on a core focus: they believe that the Iranian regime seeks to develop the technical capability and material to build nuclear weapons on short notice—though U.S. intelligence believes that Tehran has not yet made the political decision to weaponize its nuclear capability.<sup>1</sup> For its part, Iran has long insisted that its nuclear program is for strictly peaceful purposes. In an effort to blunt Iran's presumed nuclear—and some would argue, regional—ambitions and increase its leverage vis-à-vis Tehran, Washington has spearheaded a potent barrage of unilateral and multilateral sanctions. Together with on-again, off-again negotiations under the auspices of the United Nations Security Council, Washington has pursued a carrot and stick strategy—now known as 'dual track'—utilizing primarily negative inducements to convince Iran to change its nuclear policy.

Neither the sanctions nor the diplomacy component of the dual track policy has produced satisfactory results thus far. As of June 2013, seven meetings between Iran and the permanent members of the United Nations Security Council plus Germany (the P5+1) have taken place over a four-year span. In contrast with most negotiation processes, the two sides actually came closest to a deal in their first meeting, in October 2009. Since then, diplomacy has steadily devolved into an exchange of ultimatums and mutual escalation—with Washington and Tehran taking turns not being able to take “yes” for an answer.

▷ *Ferdowsi Street vendor's Iranian bank notes, Tehran, Jan. 23, 2013. Vahid Salemi/Associated Press/Corbis*



As in any negotiation, the devil is in the details—and there are many to discuss. But one detail stands out above all else: What kind of relationship does Washington want with Tehran? Over the duration of the Obama administration, America's preference has been to work towards small confidence-building measures—without clarifying its long-term objectives. This is better than nothing, but due to the lack of trust between Washington and Tehran, small tactical steps are unlikely to work—and to date, they have not worked. If the Obama administration, together with its allies, does not decide on an end game—that is, a detailed vision for normal relations with Iran—it cannot clearly communicate to Tehran the goal of diplomacy, sanctions, cyber warfare, secret assassination, and any other form of pressure. This is rarely addressed. Unless Washington and Tehran can see the same light at the end of the tunnel, the reluctance to take risks for peace will likely remain. And they will be more likely to continue escalating the conflict toward a military confrontation that both sides would independently seek to avoid.

With strategic clarity lacking in both Washington and Tehran, investment in the coercive instrument of sanctions has grown significantly over the past four years—the severity of U.S.-led sanctions enforced over the past eighteen months has even taken veteran Iranian officials by surprise. The combination of sanctions on Iran's oil and banking sectors are estimated to have cut Tehran's oil revenues by as much as 50 percent—from \$100 billion in 2011 to approximately \$50 billion in 2012.

Rather than attempting to impose a blanket economic embargo on Iran, the United States has instead used its massive leverage over the international financial system to create a new model for sanctioning Iran. It also laid the foundation for creating international buy-in through the three rounds of sanctions at the United Nations. Upon entering the White House, Barack Obama retained the same priorities, policy vehicles, and many of the same personnel on Iranian sanctions as his predecessor. Over the duration of his first four years in office, Obama signed into law the most comprehensive unilateral sanctions framework in history, led efforts to secure new multilateral sanctions at the United Nations Security Council, and played an instrumental role in convincing the European Union (EU) to implement its own set of unilateral sanctions.

Unilateral American sanctions have arguably inflicted the most pain on Iran during Obama's presidency. In July 2010, he signed into law the Comprehensive Iran Sanctions, Accountability, and Divestment Act, which updated the Iran Sanctions Act of 1996 with an array of punitive measures—two of which stand out: the sanctioning of providing gasoline and other fuels to Iran, and banning the sale of equipment and services that would help Iran increase its gasoline production capabilities.<sup>2</sup> As these sanctions caused Iran's imports to fall, the country was faced with potential fuel shortages, thereby forcing it to domestically produce gasoline that has caused the chronic pollution in Tehran to reach even more deadly levels.<sup>3</sup>

With the U.S.-Iran conflict no closer to a peaceful resolution after nearly three years in office, Obama authorized what has been brashly described by American officials as the “nuclear option” in Washington’s financial war against Tehran, by way of the National Defense Authorization Act of 2011 (NDAA).<sup>4</sup> These sanctions restrict the access of foreign banks to the U.S. financial system if they process petroleum transactions with Iran’s central bank.<sup>5</sup> Less than a year later, with congressional pressure unrelenting, Obama signed the Iran Threat Reduction and Syria Human Rights Act (ITRSHRA). Building on the NDAA sanctions, ITRSHRA cuts off access to the U.S. market for companies that do business with Iran’s energy sector and freezes the U.S. assets of persons, insurers, and lenders that facilitate repatriation of Iranian oil revenues and/or do business with the National Iranian Oil Company and the National Iranian Tanker Company.<sup>6</sup> Gary Ackerman, a Democratic Party congressman from New York, describes the intent of this mixture of unilateral American sanctions: “The goal... is to inflict crippling, unendurable economic pain [in Iran]. Iran’s banking sector—especially its central bank—needs to become the financial equivalent of Chernobyl: radioactive, dangerous, and most of all, empty.”<sup>7</sup>

With Tehran now facing what many consider the most draconian sanctions regime in history, does this mean sanctions are working? Have sanctions increased the likelihood of a compromise in the nuclear standoff? Or, are sanctions causing hardliners in Tehran and the West to dig in their heels and eschew the compromises that will be necessary for a peaceful resolution to the crisis?

Iran sanctions are a highly politicized issue, with domestic political ramifications in Washington and Tehran, as well as in Tel Aviv and Brussels. Though sanctions have been the primary policy tool used by the West since concerns about Iran’s nuclear ambitions intensified in 2002, thus far they have failed to alter Tehran’s nuclear policy. The question remains: Why? To better understand how sanctions have played out over the years, it is useful to deconstruct the stated objectives of sanctions, the internal state of play in Iran in response to sanctions, and the effect that sanctions have (and do not have) on the diplomatic process.

### Iran’s Calculus

The Obama administration has made sanctions the center of its Iran policy since the first round of negotiations with Tehran collapsed in November 2009, although its motivations for doing so and its public pronouncements about the objectives have varied. Perhaps the most commonly stated objective is changing Iran’s nuclear calculus, with sanctions being the primary tool used to raise the cost of Iran’s nuclear pursuits. The overarching goal is to make the cost of continuing Tehran’s nuclear path too high to bear, thereby leading to a change in its nuclear policy. The strategy envisions a three-part scenario in achieving

this goal: devastate the Iranian economy with a tacit understanding that civilian Iranians will be hurt in the process; as sanctions take root and permeate Iranian society, civilians together with various stakeholders will pressure the government and potentially create regime-threatening protests; with the economy weakened—and new fissures created within Iranian society *and* among Iranian stakeholders—the Islamic Republic’s regional and international strategic objectives become too costly to continue at current levels.

A subset of changing Iran’s nuclear calculus is getting Tehran back to the table and negotiating in good faith. This logic supposes that sanctions will force key stakeholders in Tehran to believe that returning to negotiations and seeing them through is the only avenue for ending the forms of pressure that threaten their domestic, regional, and international priorities.

Another key driver of sanctions involves domestic politics in the United States and in Europe. One of the objectives, say some sanctions advocates, is to strengthen the credibility and leverage of pro-engagement camps, thereby providing political cover for politicians who favor non-military solutions to the conflict between Iran and the West. In the United States and within the European Union, sanctions serve as a shield against political attacks from neoconservatives who label negotiations with Tehran as a demonstration of weakness and naiveté. In Tehran too, sanctions indirectly support the engagement camp also, by reminding citizens of the consequences of hardline policies, and providing leverage for factions favoring détente with the West.

Some Western officials also present sanctions as an alternative to an American or Israeli attack on Iran, by helping delay Iran’s nuclear program and thereby adding more time for diplomacy. Rhetoric within the Obama administration has stressed a preference to resolve differences over Iran’s nuclear program diplomatically, while also emphasizing “all options are on the table”—including war—to prevent Iran from acquiring a nuclear weapon. American and European officials further believe that effective sanctions may help dissuade Israel from launching a unilateral strike on Iran; Israel has laid down numerous red lines over the past decade in an effort to demarcate specific developments in Iran’s nuclear program that would trigger an Israeli attack.

Political signaling is another key driver of sanctions, with the signals intended to reach three key audiences: to show political constituents in the United States that Washington is increasing pressure on Tehran to unprecedented levels; to show Middle Eastern allies and foes that America is still in charge and make an example of Iran for its challenge to Pax Americana in the region; and thirdly, to show the world that Iran is paying such a heavy price for its nuclear pursuits that no country should seek to emulate Tehran’s path to nuclear capability.

In order to maintain and increase the heavy price that Tehran pays, a special emphasis is given to maintaining unity within the P5+1. This logic infers that Washington

must seek to maintain a multilateral approach toward Iran regarding the nuclear issue—because Tehran is highly adept at exploiting rifts in the international community. Sanctions are the baseline tactic that the P5+1 can agree on in an effort to maintain international unity around diplomatic efforts to place red lines on Iran’s nuclear program.

While these motivations for sanctions are not mutually exclusive, the central objective is to change Iran’s nuclear calculus and force it to agree to a deal that it otherwise would refuse or has already refused. Since that specific objective has not been achieved thus far, sanctions cannot be deemed to have been successful. This begs another question: Why haven’t Iranian stakeholders capitulated in some way under the pressure of severe sanctions?

### **The Western Animosity Narrative**

Sanctions have had a devastating impact on the Iranian economy. Numerous regime stakeholders openly acknowledge this, although they also blame Iran’s economic decline on a number of other factors such as subsidy reforms, varying degrees of mismanagement, and long-standing corruption.

Representatives from the Iranian Chamber of Commerce have said that 50 percent of the economic predicament is a direct consequence of sanctions and the other 50 percent is due to failed economic policies.<sup>8</sup> Mohsen Rezaei, secretary of the Expediency Council and former commander of the Iranian Revolutionary Guard Corps, believes that 40 percent of the current economic problems are due to sanctions, blaming the rest on mismanagement as well as corrupt networks that are “trying to benefit from the current chaotic situation in the economy.”<sup>9</sup> The deputy speaker of the Iranian Majles, Mohammad Reza Bahonar, has said that external sanctions are causing 50 percent of the current economic difficulties, with the rest being the consequence of weak political decisions and structural issues.<sup>10</sup>

Supreme Leader Ayatollah Ali Khamenei is steadfast in his defiance of sanctions. The escalation of sanctions has enabled him to strengthen a powerful pre-existing narrative that portrays Western powers as a brutal, immoral group of governments out to ‘get’ Iran, and that their core interest is to keep Iran underdeveloped and dependent. This narrative serves to maintain unity in a fragmented power structure by sustaining the image of an unrelenting enemy. This in turn justifies a feared security apparatus—to counter that enemy—and mobilizes the support of a minority segment of society that can be paraded as “popular support” when needed—on the anniversary of the revolution, during elections, etc.

As long as the narrative of Western animosity remains in place, Khamenei will justify the empowerment of his military-security apparatus as a necessary instrument for countering threats against the Islamic Republic.<sup>11</sup> In January, he commented that

“the sanctions are meant to strain the people’s patience, incite the people to oppose the Islamic Republic, and increase the pressure on Iranian officials in order to alter officials’ calculations”—in other words, he continues to promote the image of a strong external enemy and the imperative ‘not to give in.’<sup>12</sup> Khamenei’s formula for countering the sanctions—which he describes as “economic warfare”—has been dubbed the ‘economy of resistance,’ a vague term for a greater degree of protectionism, support for domestic industry, and lowering the Iranian economy’s dependency on oil exports.

Khamenei may be the supreme leader, but his position on nuclear policy is not immovable. There are Iranian domestic interests and structures that can challenge his narrative, and create counter narratives enabling a policy course correction. But they are unlikely to do so in the absence of clear, tangible, and positive potential outcomes in the event of an Iranian nuclear policy shift. To provide some degree of flexibility, Khamenei allows experiments, but does not commit to them until he gets a sense of security about the initiatives—an Iranian version of “leading from behind.”<sup>13</sup> Indeed, the supreme leader can hide behind an array of institutions when he needs to justify or delay a decision. So, a critical question is how key constituencies read the current state of play, especially those layers of power that are closer to Khamenei.

### **Waiting for Sanctions Fatigue**

While there is wide acknowledgement in Iran that sanctions have created economic and social costs for the country, individuals close to the core of Iran’s power structure are relishing the narrative of resistance. According to this line of thought, while Iran suffers economically, it is also gaining newfound respect on the international stage due to its refusal to succumb to Western pressure. “Those who are witnessing how Iran is managing its enormous challenges develop a new level of respect for Iran, and that has given Iran a new credibility on the international stage,” one influential parliamentarian remarked. “Iran has become a role model for developing countries and there is a greater willingness among developing nations to work and trade with Iran.”<sup>14</sup> While the idea that Iran is viewed as a role model or with greater respect is certainly debatable, it is an argument that is frequently cited by officials as a vindication of their narrative.

Moreover, this narrative contends that as long as Iran stands firm, global sanction fatigue—including in Europe—will ultimately cause the collapse of this policy. A senior decision-maker in Tehran spoke confidently of the belief that Europe cannot stomach a return to sanctions-based policies reminiscent of those imposed on Saddam Hussein’s Iraq. This in turn will slowly unravel the coalition against Iran. “The sanctions—and especially the continuation of these sanctions—have exposed Washington’s true character to many international players, including Western countries,” he said. “I

believe that the Europeans won't continue to blindly support the U.S. strategy, and the time will come when the EU or some of the European countries will go a different path and Iran will wait for that break."<sup>15</sup> A Majles deputy close to Speaker Ali Larijani echoed this sentiment, expressing a degree of skepticism regarding Europe's dedication to sanctions: "In the Majles presiding board, there is an understanding of what the U.S. is doing. We understand that they have a strategy to antagonize Iran. However, the big puzzle is the EU's behavior. It seems as if the Europeans have fallen into an American-Israeli trap and they don't know how to come out of it. If they continue this way, they will lose more and more of their economic foothold in Iran."<sup>16</sup>

Iranian regime officials—aiming to bolster Khamenei's hardline narrative—seek to politically capitalize on the negative impact of sanctions in order to influence the Iranian populace's attitudes towards the West. Rather than denying the negative impact of sanctions, decision-makers in Tehran increasingly acknowledge them to vindicate their claims of Western hostility towards Iran. "It's true that the sanctions are imposing an economic cost on the Iranian people and the regime, but they are also imposing a social cost on the U.S.," one influential policymaker said. "The Iranian people are learning more about the hypocrisy and the true image of the West. I believe that the Iranians are becoming more and more anti-Western and that will have long-term costs for the Western countries in our region."<sup>17</sup> Although it is unlikely that sanctions will turn the entirety of Iran's population against the West, Iranians inside Iran have increasingly voiced their displeasure with both the government *and* the sanctions that create new hardships.<sup>18</sup> A senior Iranian diplomat echoed as much: "The society has become nuanced in its political awareness. It can analyze to see how far the current economic conditions are a result of Western pressure and Western double standards and to what extent it is the doing of the Iranian government."<sup>19</sup> Accurate polling is questionable in Iran, yet a long series of studies—including a recent scientific poll conducted by Gallup—supports the notion that a strong plurality of the Iranian population tends to put the blame for the economy on the U.S. rather than on the Iranian government.<sup>20</sup> If this trend holds, the regime will find more opportunities to strengthen its narrative of resistance and blame the West for Iran's deteriorating economy as the duration and bite of sanctions intensifies.

Overall, the strategic outlook of Iran's supreme leader is to maintain a clear distance from the United States. However other stakeholders have developed alternative agendas. Some segments of the Iranian power structure view a good relationship with the West as a prerequisite for Iran's economic and technological progress. Others believe that Tehran should ease tensions with the West to provide a greater degree of peace and tranquility in the region. However, as long as the antagonistic policies of Western countries remain in place, the Khamenei discourse will continue to dominate.



## Undermining Reform

A critical step for sanctions to succeed in changing Iran's nuclear calculus is to create room for the emergence of a competing narrative that paves the way for a shift in policy. Though the repressive nature of the Iranian regime and its efforts to eliminate any public debate about the nuclear issue renders the emergence of such a public narrative next to impossible, this does not necessarily hold true for narratives within the inner circles of the regime. Thus far, however, no such counter narrative appears to have emerged among influential elements of the Iranian elite.

“Even though regime members outside the core can have a voice and influence, it is sad to say that none of them actually has a strategy on how to amend the national security policy,” a regime insider explained. “Therefore, the core around Ayatollah Khamenei is not only the most powerful, but also the only group that has a strategy, i.e. the ‘strategic distance and antagonism’ to the U.S.”<sup>21</sup> At present, there is no discernible competing strategy to the current narrative favored by Khamenei and the layers of power closest to him. While mainstream conservatives may be more amenable to negotiations and a nuclear compromise, they have not formulated a strategy accordingly, as they feel that the dominant narrative will hold firm. The other reason for the lack of a counter narrative can be found in the failure of Western countries to craft and communicate an alternative scenario. In Iranian eyes, there are no indications of how the dynamics of nuclear negotiations would change if Iran indeed changed its policy. These interest groups do not seem impressed by offers of the removal or suspension of some sanctions. Consequently, the core narrative is not only unchallenged during internal debates, it is further consolidated by continued external antagonism.

A former high-level diplomat and foreign ministry official described the result of this trajectory: “The status of being in an ‘economic war’ means that a lot of the actual issues in the country cannot be debated, which is also impeding the political development of the country. The situation has undermined the position of the reformists and empowered the hardline elements.”<sup>22</sup>

Iranian intellectuals critical of the regime—even though they have diverging views on whether the Iranian government should show more flexibility or whether Western countries should adopt a new policy—tend to agree that sanctions only reinforce the dominant anti-Western narrative, thus making it very difficult for any other perspectives to emerge. There is also agreement with the notion that sanctions have undermined the domestic process of democratization, which in turn has aided long-standing efforts by hardline forces to dominate Iranian politics.<sup>23</sup>

A former mayor of Tehran points out that neither Iran's elite nor its society at large wish to see the destruction of Iran. Therefore, he says, any internal or external push that would bring Iran to the brink of “economic destruction” will be met with

a harsh reaction. The problem, he adds, is that most Iranian elites have not decided whether the West or their own regime is primarily responsible for the country's sanctions predicament.<sup>24</sup>

### **Regime Change?**

Stark divisions over foreign and domestic policy among the Iranian elite are unmistakable. However, those divisions do not appear to have affected regime cohesion around the nuclear issue or on the response to sanctions. And if elite insiders are to be believed, sanctions have helped strengthen cohesion rather than intensify rifts. A serving senior minister articulated his view accordingly: "The main objective of these sanctions has been to impose regime change or at least to weaken the Iranian regime. They have failed in that objective and in fact, they are strengthening the core of the Iranian regime, because they have regime constituents." The minister says that the main result of sanctions is their socio-economic costs including the negative impact on Iran's economic development. Another current official with influence over Iran's economic policies shared this sentiment: "Western governments thought that Iran would collapse economically after the central bank sanctions. Well, now they know that they have failed. If they continue this way, it will just strengthen Iran's resolve to confront the West."<sup>25</sup>

Naturally, regime officials will tend to toe the party line, which does obscure a clear picture of the thinking inside the system. However, when crosschecked with former regime officials and regime-critical intellectuals, a similar sentiment emerges. A former deputy foreign minister candidly describes a line of thinking that exists beyond the supreme leader's inner circle: "It was obvious to us that the sanctions' pressure will increase and it was also clear to us that the main target was to weaken the regime, but that compelled us to stay strong, work together, and prove the Western strategy wrong."<sup>26</sup> A former senior Iranian diplomat shared this sentiment, saying that he believes continued sanctions will further harden Iran's position in future diplomatic negotiations.<sup>27</sup> It is reasonable to believe that beyond these statements of bravado, a more conflicted situation exists. The critical question, however, is whether those internal divisions are having an impact on the strategic calculations of the regime.

### **Private Sector Pressure**

For its part, the private sector is unhappy about the current state of affairs, especially the negative impact of sanctions—and government policies—on private sector activity. But in their private lobbying campaigns, rather than pushing for a different foreign policy, they have tended to focus on lobbying the government to secure concessions for the private sector, thereby acknowledging that they do not have the necessary political influence to change nuclear policy. The main forum for such lobbying has

been regular sessions titled “Dialogue between the Iran Chamber of Commerce and the Government,” which involve the president of the chamber (Mohammad Nahavandian) and key ministers (finance, commerce and industry, agriculture, petroleum, etc.). Ayatollah Khamenei’s decision to declare the current calendar year as the “Year of Domestic Capital and Domestic Industry” is likely related to these lobbying efforts.<sup>28</sup>

Thus far, the private sector has secured a number of concessions. Numerous product categories of imports have been included in the currency exchange priorities so that such companies can use favorable currency exchange rates for their imports.<sup>29</sup> The implementation of the second phase of subsidy reform has been delayed (this was achieved through direct interaction between the private sector representatives and the Majles).<sup>30</sup> A decree by the Expediency Council on “Drive to Self-Sufficiency in Industry, Agriculture, Defense, and Security” has been finalized—a document to promote local industry and local production. This was also the result of lobbying with the Expediency Council.<sup>31</sup> Permits have been issued for private sector companies to participate in the exportation of petroleum (including crude oil) and petrochemical products.<sup>32</sup>

In February 2013, Ayatollah Khamenei signed a decree on “General Policies on Domestic Production and Protection of Iranian Labor and Capital.”<sup>33</sup> The latest evidence that domestic industry is lobbying to improve the investment environment manifested itself when the supreme leader’s decree highlighted twenty-three new benefits to Iran’s private sector, including but not limited to: promotion and protection of the production of strategic goods, as well as goods that are required for domestic manufacturing; completion of the value chain of raw materials and products, and an end to the sale of raw materials; promotion of producing goods in the domestic market, the competitive production of which will lead to net hard currency revenue for the economy; management of hard currency resources emphasizing the needs for domestic production and entrepreneurship aiming at maintaining the value of the national currency; an increase in the role of the private sector and cooperative sectors in domestic production; and the breaking of all monopolies in production, commerce, and consumption.

While it is correct to say that a number of these initiatives will also benefit the quasi-governmental sector, the central point is that the Iranian business community (private or quasi-governmental) is mainly focused on improving its own operational and investment climate rather than lobbying for a change in nuclear strategy. Moreover, while Western intelligence suggests that the Iranian business community has put pressure on Khamenei to shift his nuclear stance, no publicly available information has been able to confirm this. In spite of the bite of sanctions, Khamenei’s narrative of resistance continues to dominate, and key stakeholders seem more intent on seeking concessions from the government rather than pressing for a change in its nuclear policy.

## Talking to America

While there was greater diplomatic activity in 2012 and 2013 compared to 2011, there are no signs that sanctions have compelled Tehran to ‘come back to the table’ in the manner that the sanctioning states desire. Meetings over the past year have failed to produce a compromise. Tehran signaled openness to halting the production of medium-enriched uranium (MEU) at the 19.75 percent level—a level of enrichment needed to produce medical isotopes for cancer patients, but also an important step closer to the 90 percent level required for nuclear weapons. However, Iran resisted calls to cease activities at its heavily fortified underground enrichment facility in Qom and ship out its stockpile of MEU. In return, Tehran sought the lifting of sanctions and/or upfront recognition of its right to enrich—demands the U.S. and its allies rejected. Tehran dragged its feet in scheduling the most recent meetings, either seeking to create the perception that it is in no hurry, or truly believing that it could afford to play for time—or perhaps seeing little benefit in coming to the table at all. In any case, there are no signs yet that the sanctions noose around Tehran’s neck, as State Department Spokesperson Victoria Nuland has put it, has softened the Iranian negotiation position.<sup>34</sup>

Some foreign policy hands in Tehran contend that in spite of increasingly uncontrollable infighting within the regime, viewpoints among various political factions have converged on the nuclear issue. Even influential foreign policy experts, who were sidelined by President Mahmoud Ahmadinejad and later joined opposition leader Mir-Hossein Moussavi’s presidential campaign in 2009, believe that “succumbing under pressure only invites more pressure,” and have even privately circulated proposals such as withdrawing from the Nuclear Non-Proliferation Treaty (NPT). Though Iranian officials no longer deny the immense impact of sanctions on the Iranian economy, Khamenei has reinforced his refusal to allow sanctions to affect Iran’s nuclear policy. Iran won’t negotiate “with a gun held to its head,” he stated on February 7, 2013, in response to Vice President Joe Biden’s call for direct U.S.-Iran talks. In a speech on February 16, he expanded on his reasoning with a direct reference to sanctions and the notion that Tehran will react positively to incentives as opposed to pressure:<sup>35</sup>

Sanctions are painful and they are a nuisance, but there are two ways to react to such pain: One group are those who start begging for forgiveness, but a brave nation like Iran will try to mobilize its inner resources and to pass through the “danger zone” with determination and courage... The Americans should show that they don’t want to bully us, that they won’t engage in evil acts, show us that their words and deeds are not illogical and that they respect the rights of the Iranian people, show that they won’t push the region into further confrontations and that they won’t

interfere in the internal affairs of the Iranian people—they will see that the Islamic Republic has good will and the people are logical. This is the only way to interact with the Islamic Republic.

The sanctions have, however, achieved one outcome: There is an elevated and intense debate in Tehran on the issue of talking to America for the purpose of establishing a better relationship with Washington. It is in this context that Khamenei's statement is so critical, as he is not rejecting the argument that Iran should establish relations with Washington, but rather the notion that it should do so while facing escalating economic pressure orchestrated by the United States. Khamenei is in essence declaring that the conversation about establishing relations with the U.S. (by first accepting the invitation for bilateral talks) will not translate into real action until Washington's sanctions-based approach is ended.<sup>36</sup>

Although the deep-seated distrust between the United States and Iran has also been heightened by sanctions and the crisis over Tehran's nuclear program, these are only two of many issues dividing them. However, the nuclear program remains the top priority for U.S. policymakers working on Iran—often to the detriment of more important issues, such as the deteriorating human rights situation in the Islamic Republic.

An Iranian nuclear bomb is neither imminent nor a foregone conclusion. The sixteen U.S. intelligence agencies judge with high confidence that Iran has conducted no nuclear weapons-related experiments since 2003, that it currently has no nuclear weapons program, and that it has not made the political decision to pursue nuclear weapons.

In theory, this provides ample political space for Obama to pursue a sustained process of diplomacy dedicated to ensuring that Iran's nuclear program remains verifiably peaceful. In practice, however, we often see the opposite from Washington—self-imposed time limits on diplomacy, unprecedented coercive measures, and sensationalistic government-fed journalism about an imminent Iranian nuclear weapon. Why the disconnect?

At present, Iran is pursuing a strategic middle ground called nuclear latency: It aims to build a nuclear energy program that would allow for the production of a nuclear weapon on short notice if an existential threat came to the fore. This is often referred to as the "Japan option"—after the country that has made significant investments in peaceful nuclear energy without developing key expertise to produce a nuclear weapon or its corresponding delivery systems. Like Japan, Iran's technological sophistication, its access to uranium and plutonium, and its experience launching satellites and missiles lend credence to the argument that it could theoretically build a nuclear weapon. But even after doing so, a weapon would require at a minimum one full year to complete—and American intelligence would almost certainly detect such efforts.

Nuclear latency does not violate Iran's international obligations, but it does arguably provide the Islamic Republic with a geostrategic equalizer in a region that America has dominated for decades. Numerous alternative explanations for opposing Iran's program have been offered: Iran's nuclear program will stunt the growth of nascent and future democracies in the region, fatally undermine the Nuclear Non-Proliferation Treaty, cause Iran's Arab neighbors to lean toward Tehran, or encourage nuclear proliferation throughout the Middle East.

Some of these concerns hold merit, others are more far-fetched. But all of them fall under the umbrella of a larger concern—arguably America's primary concern—regarding Iran's nuclear program: a nuclear-capable Iran will enable the emergence of a regional power that fundamentally rejects the notion of a Pax Americana for the Middle East.

And therein lies the rub: Iran will not enter into the regional security framework as it exists today, and the United States will not change the existing framework to accommodate Iranian preferences and goals. At face value, this seemingly zero-sum game puts Washington and Tehran on a collision course that can only end in war unless one side blinks.

The saving grace, which prevents this scenario from becoming a forgone conclusion, is that to date, diplomacy has not really been tried. There has been one forty-five-minute bilateral meeting between the United States and Iran during Obama's first four years in office. This does not constitute a real diplomatic effort. Embarking upon a sustained diplomatic process on Iran's nuclear program will not solve the larger U.S.-Iran conflict. But it can serve as an important foundation from which dialogue can continue on other equally important issues.

### **Drinking the Cup of Poison**

Overall, sanctions have succeeded in putting tremendous pressure on the Iranian economy. Rather than show greater flexibility, however, the Iranian government's response thus far has been responding in kind by increasing pressure on the West. Tehran has continued to expand its nuclear program, it has sought ways to circumvent sanctions rather than acquiesce to them, and it has doubled down on the foreign-threat mindset that empowers Iran's hardline security and intelligence communities—the very elements that benefit from a continuation of the crisis. All this indicates a significant gap between the stated goals of the sanctions policy—a change in the Iranian calculus in regard to its nuclear program—and what sanctions have actually achieved.

Some sanction advocates posit that sanctions will not necessarily yield results in a linear manner; Tehran, they explain, may be able to resist sanctions for an extended period of time, only to massively yield to the pressure after an inflection point has been reached.

The view suggests that judging the track record of sanctions thus far is therefore inappropriate and misleading. In an arena where diplomatic efforts are judged harshly and expected to yield extensive results almost instantaneously, this argument also accepts a political reality in which timelines and deadlines for sanctions can hardly be guaranteed.<sup>37</sup>

However, even if the notion of a non-linear process is accepted, signs of an inflection point must become evident at some stage, such as the emergence of a narrative within the elite that challenges the status quo policy and presses for a change. The existence of widespread discontent and anger against the Iranian regime should not be misconstrued as such an inflection point, that is, as pressure from society (or stakeholders) to shift Iran's nuclear policy per se.

Sanctions have thus far failed to produce an inflection point, nor are they likely to do so. The combination of suppressing open debates about the nuclear issue, the manner in which sanctions "vindicate" Ayatollah Khamenei's narrative of Western animosity aimed at "defeating Iran," and the absence of convincing and enticing incentives—such as meaningful sanctions relief—to change Iran's nuclear policy has prevented the emergence of a credible counter narrative within the Iranian elite. In the words of Roberto Toscano, a former Italian ambassador to Iran:

"[P]ragmatic voices within the regime... should be capable of convincingly stressing that both national interest and regime survival would be better pursued by abandoning not only [Iran's] provocative rhetoric but also its ideological intransigence. The problem is that this is made more difficult by sanctions, a godsend for those who are trying to rally Iranians around the regime and against external pressure."<sup>38</sup>

Moreover, stakeholders in the system such as the business community have focused on seeking economic concessions from the regime rather than lobbying for a shift in Iran's nuclear stance. The absence of meaningful sanctions relief on the negotiating table appears to have prevented the emergence of incentives for the business community to forcefully challenge the regime's nuclear strategy.

Successful cases in which enormous external pressure shifted the Islamic Republic's policy on a central national security issue—such as Ayatollah Ruhollah Khomeini's decision to "drink the cup of poison" and end the debilitating war with Iraq—included both a challenge to the dominant narrative and influential stakeholders pushing for a policy shift. In the case of the Iraq-Iran war, this was made possible because it was clear to the Iranians that accepting a UN-mediated truce would unquestionably end the war with Iraq *and* they had confidence that Saddam Hussein could deliver on his end of the bargain. Tehran does not perceive a similar situation today, as two key

issues remain unclear to the regime: What sanctions would be lifted if Iran were to succumb to Western pressure, and perhaps more importantly, whether the West has the political ability to deliver on sanctions relief.

### An Existential Concern

A pressure strategy that lacks the sophistication and flexibility to help unravel the dominant narrative in the sanctioned state and entice stakeholders to push for policy changes is unlikely to succeed and may be counter-productive. In the case of Iran, a continuation of the current approach will likely consolidate the anti-Western narrative and render a compromise more difficult.

The United States and the EU believe sanctions have put Iran on a one-way path towards economic collapse unless it yields on the nuclear issue. Accepting the P5+1 proposal is a rational move, as they see it, and rejecting it is either the result of miscalculation or ideological rigidity.

Iran perceives a different reality. Khamenei's behavior suggests he is aware of his regime's unpopularity. Since 2009, the regime has lost several constituencies, rendering the few who support the regime and believe it to be legitimate all the more politically crucial to regime survival. To these constituencies, the narrative of resistance against the West to uphold Iran's independence is essential. Any move by the regime that will be perceived by this constituency as a capitulation to Western demands, i.e. a violation of the regime's narrative, risks turning them against the Khamenei. Mindful of Khamenei's already weak support base, the loss of these last constituencies could be existential and prove a greater threat to the regime's survival than even a military confrontation with the United States. While the regime does not hold out hope for actually winning a war against the U.S., it certainly believes it can *survive* a war—and even come out of it stronger at home. Thus, it is highly unlikely that the regime will succumb to the sanctions pressure at a time when its narrative remains unchallenged within the elite, key stakeholders are not visibly lobbying for policy shifts, no meaningful sanctions relief is put on the table by the P5+1, and capitulation poses an existential threat to the regime.

Any calibration of the sanctions policy should focus on promoting a discourse that can undo the consolidated narrative that Western governments are opposed to Iran's progress, *and* can offer a solid prospect—such as meaningful sanctions relief—and clear arguments to Iranian stakeholders who have the ability to change the debate inside Iran. These measures can dramatically change the prospects of shifting Iran's nuclear calculus.

*This essay is adapted from "Never Give In and Never Give Up: the Impact of Sanctions on Tehran's Nuclear Calculations," a study published by the National Iranian American Council in March 2013.*



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- 11 Survival of the Islamic regime is an important factor in decision-making and behavior. As long as it provides the basis for the regime behavior, it can be easily justified. Even the Expediency Council, which Rafsanjani heads, is an institution to provide for the "expediency of the regime," i.e. an instrument to prolong the life of the regime
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- 15 Interview with former high-ranking minister who is still influential in the key foreign policy and national security circles
- 16 Interview with Majles deputy close to Ali Larijani
- 17 Interview with former high-ranking minister who is still influential in key foreign policy and national security circles
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  - 22 Interview with former high-level diplomat and foreign ministry official
  - 23 Interviews with five Iranian intellectuals who wished to remain anonymous
  - 24 Interview with a former mayor of Tehran
  - 25 Interview with current official in the country's business community who has influence over trade and economic policies
  - 26 Interview with former deputy foreign minister who is still close to the foreign policy and national security circles
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