

EVALUATING THE TRUMP ADMINISTRATION'S APPROACH TO SANCTIONS CASE: IRAN

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Introduction

Since taking power in January 2017, the Trump administration has overseen a dramatic escalation of sanctions¹ to pressure and punish US adversaries, including high profile cases against Iran, North Korea, Russia, and Venezuela. Against this background, the Center on Global Energy Policy is launching a short series of critiques of the Trump administration's sanctions in the four cases mentioned. The series uses findings from the author's book, *The Art of Sanctions*, which recommends policy makers evaluate their sanctions decisions regularly to assess whether they are using sanctions effectively. It counsels that policy makers should have alternative strategies under development for use if they determine sanctions have or will likely fail to achieve their objectives. Further, the author enjoins those intent on using sanctions to recall that, like all foreign policy instruments, sanctions are only as good as the underlying strategy being pursued.

This commentary, the first in the series, examines the effectiveness of the sanctions put in place against Iran. In previous works, the author has been critical of the Trump administration's Iran policy, particularly its decision to withdraw from the Joint Comprehensive Plan of Action (JCPOA).² However, this commentary aims at objective analysis of what has been achieved with respect to the use of sanctions to fulfill established policy ambitions, rather than to take issue with the policy itself. It assesses the sanctions approach within the parameters of the framework outlined in *The Art of Sanctions* and concludes with some recommendations for the Trump administration.

Assessing the Trump Administration's Sanctions Approach for Iran

The Art of Sanctions recommends "a six-element process for developing a case-by-case approach for the imposition of sanctions."³ Under these best practices, a state considering or developing a sanctions regime should do the following:

1. Identify objectives for the imposition of pain and define minimum necessary remedial steps that the target state must take for pain to be removed;

2. Understand as much as possible the nature of the target, including its vulnerabilities, interests, commitment to whatever it did to prompt sanctions, and readiness to absorb pain;
3. Develop a strategy to carefully, methodically, and efficiently increase pain on those areas that are vulnerabilities while avoiding those that are not;
4. Monitor the execution of the strategy and continuously recalibrate its initial assumptions of target state resolve, the efficacy of the pain applied in shattering that resolve, and how best to improve the strategy;
5. Present the target state with a clear statement of the conditions necessary for the removal of pain, as well as an offer to pursue any negotiations necessary to conclude an arrangement that removes the pain while satisfying the sanctioning state's requirements; and,
6. Accept the possibility that, notwithstanding a carefully crafted strategy, the sanctioning state may fail because of inherent inefficiencies in the strategy, a misunderstanding of the target, or an exogenous boost in the target's resolve and capacity to resist. Either way, a state must be prepared to acknowledge its failure and change course or to accept the risk that continuing with its present course could create worse outcomes in the long run.

Identify Objectives

The sanctioning state should identify objectives for the imposition of pain and define minimum necessary remedial steps that the target state must take for pain to be removed.

The Trump administration has outlined two separate sets of objectives for its Iran sanctions strategy, which are, to a certain extent, mutually exclusive.

Principally, the Trump administration is following the approach laid out by Secretary of State Mike Pompeo in May 2018, the so-called “12 steps.”⁴ These steps encompass a broad range of Iranian policy choices, including nuclear steps such as renouncing an independent nuclear fuel cycle and providing “unqualified access to all sites throughout the entire country,” halting its ballistic missile program, releasing all US citizens, ending support for its proxies, and withdrawing from Syria. The 12 steps were bolstered with a demand for an improvement in Iranian human rights. Pompeo noted that the “list is pretty long” and stressed that “the length of the list is simply a scope of the malign behavior of Iran.”⁵ Pompeo underscored that the reimposition of these sanctions was intended to allow the United States to further break free from the strictures of the JCPOA, which had limited US freedom of action in imposing sanctions on Iran. Resolution of the 12 steps was a direct and unambiguous objective of US sanctions policy.

Subsequently, the president appeared to modify the list of US policy objectives. For example, he said on May 27, 2019, “We aren’t looking for regime change—I just want to make that clear. We are looking for no nuclear weapons.”⁶ In September 2019, Trump reportedly agreed to a short declaration with Iranian president Hassan Rouhani, brokered by French president

Emmanuel Macron, in which Iran would agree to “never acquire a nuclear weapon” and “comply with its nuclear obligations and commitments, and will accept a negotiation on a long-term framework for its nuclear activities.”⁷ In exchange, the United States would go back to the sanctions relief embodied in the JCPOA.⁸ A similar diminution of US sanctions objectives has been present in many of Trump’s remarks on the subject, suggesting—at a minimum—the president’s tendency to use shorthand in ways that are unhelpful for messaging purposes. Alternately, it could signal a real disconnect between senior officials and the president himself.

Consequently, Iranian and other interested observers have expressed difficulty in divining what precisely the United States wants and would demand as part of a negotiation and what the sanctions policy intends to achieve. Beyond that, the frequent presence of proponents of regime change in Iran within the upper echelons of the US decision-making apparatus—most notably, former national security adviser John Bolton—has created a sense that the stated objectives belie the true intentions of US sanctions policy.

Understand the Target

The sanctioning state should understand as much as possible the nature of the target, including its vulnerabilities, interests, commitment to whatever it did to prompt sanctions, and readiness to absorb pain.

Though the United States has displayed a keen understanding of Iranian economic strengths and weaknesses, it has not demonstrated a grasp of Iranian political psychology.

On the former, the Trump administration has been able to take advantage of the fact that while Iran’s economy has changed in important dimensions in the last few years, the oil and gas industry remains its primary export sector. Iran’s banking sector is also very weak, having been damaged by the Ahmadinejad administration’s sanctions baiting and corruption from 2005–2013 and only superficially repaired under Rouhani. Consequently, the United States already had a strong understanding of Iran’s core economic processes and function when the Trump administration reactivated the sanctions. Iran’s economy had only somewhat recovered under the limited time the JCPOA was in full operation, so it was highly susceptible to disruption. In particular, international investment and business activity with Iran had never really rebounded under the JCPOA, so it was relatively painless for most international companies and banks to withdraw when instructed to do so in 2018’s sanctions revival. Many, in fact, had only modestly returned to Iran.

For these reasons, the Trump administration could impose sanctions against Iran with some reasonable confidence that the previous measures employed against Iran would work at least as well as in the past. This is notwithstanding structural changes made in the Iranian economy that have boosted domestic production and economic activity, particularly in the agricultural and industrial sectors. These changes are real and have improved the outlook for Iran’s economy even under sanctions, as noted by the International Monetary Fund (IMF) in its 2019 World Economic Outlook⁹ and by Iranian nongovernmental economists, including Djavad Salehi-Isfahani.¹⁰ While the changes have not been sufficient to insulate the Iranian government from the damage caused by sanctions, they have probably helped it weather the

storm and avoid a collapse of the economy. This example shows that while sanctions can do a lot of damage, their effectiveness to some extent depends on the level of systemic weakness in the economy targeted. This is an important lesson about sanctions that the author will discuss more deeply in the context of Venezuela in a subsequent paper in this series.

Indeed, knowing how to hurt an economy is only one part of the sanctions endeavor—and arguably not the most important. To be truly effective as part of national strategy, sanctions also need to be explored insofar as their overall policy impact. A much more sober assessment of the overall condition of a country and its resolve is necessary and, here, the top-line statements of the Trump administration appear overconfident and misplaced.

The president himself has spoken of Iran's economy as being a “disaster” where people cannot buy bread.¹¹ This has been demonstrated to be false, but the overall picture of a beleaguered economy has also been shorthanded by US policy officials as a means of evaluating the performance of the sanctions approach more generally. When asked how sanctions are working against Iran, the State Department has taken to quoting economic statistics,¹² underscoring the poor performance of the economy as a whole since sanctions were reapplied.

Even taking these statistics at face value—as seems reasonable, particularly given the IMF's assessment of the situation—they do not answer the question about whether sanctions have effectively shifted the Iranian strategic calculus with respect to the stated objectives of the sanctions approach. Put another way, Iran appears no more willing to accede to the 12 steps outlined by Pompeo today than it was in May 2018. Instead, Iranian leaders have gone out of their way to stress their intention of creating an Iranian economy that is immune from sanctions pressure through the development of indigenous industry, import substitution, and retention of capital in the country. They have also executed policy changes to help with these efforts, including creation of preferential exchange rate mechanisms that deny or render exceptionally costly hard currency for goods that can be produced at home, banking reform, privatization drives, and a sharp focus on counter Corruption. Importantly, even if this strategy fails, Iranian leaders do not at present expect it to fail. In their talking points and private communications, they continue to show some confidence in the staying power of their economy, the longevity of their present hard currency reserves, the utility of international smuggling, and the benefits of sanctions evasion. From a psychological perspective, therefore, it is hard to see signs that international pressure is causing Iranian leaders to shift their political or strategic calculus.

Of course, Iran's leaders also have an incentive to keep some of this under wraps, and in combination with the opacity of Iranian decision-making, it is possible for Iranian bravado to be overstated or misplaced. On the other hand, we can see that Iran's leadership has hardly rushed into an agreement with the United States despite ample indications from the Trump administration that the president would like nothing more. There have been no direct communications between Rouhani and Trump, notwithstanding attempts at such by the United States. The latest such attempt by Macron was derailed by both a substantive disagreement about when and how sanctions relief would be engineered and the perception that the Trump administration would not fulfill its commitments for sanctions relief unless the



prospect of a meeting or conversation between the presidents was withheld.¹³ This does not suggest US sanctions have brought the country to the brink of collapse or made it desperate for a deal. Moreover, the Iranian interest in a letter of credit approach—in which Europe would extend \$15 billion annually in credit in exchange for a future commitment for the provision of oil—has been linked financially to Iran's roughly \$15 billion annual import budget and, politically, to Iranian expectations of US recommitment to the JCPOA. Both suggest the Iranian leadership still believes it has time and space to reject offers and diplomatic opportunities, the opposite of what one would expect from a country facing economic disaster.

Develop a Strategy

The sanctioning state should develop a strategy to carefully, methodically, and efficiently increase pain on those areas that are vulnerabilities while avoiding those that are not.

Compounding the Trump administration's difficulty in understanding Iranian resolve or manipulating it, the United States does not appear to have a coherent strategy undergirding its sanctions approach. The method of attack appears to be semirandom, focused on opportunistic application of sanctions penalties without clear understanding of their effects, redesignation of Iranian institutions regardless of the substantive impact of the actions, and with still-halting cooperation of international partners.

With respect to the first point, the recent designation of the COSCO Shipping Line subsidiaries underscores the degree to which the United States has become a “shoot first, aim later” sanctions operation. The designation of the subsidiaries was not anticipated to have much substantive effect on global shipping, at least as far as contemporaneous comments by a State Department official would suggest.¹⁴ Over three weeks after the sanctions caused major concerns in global shipping operations, the United States issued a general license on October 24, 2019, that created a window of time for international companies to extricate themselves from business deals with the affected companies.¹⁵ Though such maneuvers have become common in the Trump era (e.g., with respect to Russia and Venezuela), this is not the way in which sanctions were previously used by the United States. It suggests either insufficient scrutiny of sanctions proposals before they are enacted or a willful disregard for the foreseeable, if unintended, consequences of those sanctions on other interests. Either way, the issuances of such general licenses do not support the concept of a methodical, organized approach to sanctions use.

Recent sanctions against the Central Bank of Iran and the National Development Fund of Iran,¹⁶ in response to the alleged attack by Iranian forces on the Saudi oil processing plant at Abqaiq, also indicate an absence of strategy. Both designations essentially reimposed existing prohibitions on the entities (though sanctions experts may quibble about how much further the effects of these sanctions may go than previous measures) and, in any event, were a fairly modest element of retaliation for such a spectacular attack. Perhaps more importantly, they are the most significant sanctions escalation step taken by the United States since the May 2019 decision to further restrict Iranian oil exports. Rather than present Iran with “maximum pressure” and a sense that every day would get progressively worse until Iran concedes, this use of sanctions pressure may suggest to the Iranians that the United States is running out of new effective targets to hit. Either way, the sense conveyed is less of a campaign than a series

of short engagements with no conceptual link or new element of pressure being applied.

By imposing the maximum sanctions pressure possible starting in May 2019—through the theoretical clampdown on oil exports—the Trump administration may have also taken away its ability to incrementally ratchet up the pressure on Iran and create a sense of psychological risk and imminent danger. Instead, the Iranians may believe they took the biggest, most severe punch the United States could throw and—having withstood that, at least for the moment—fear little else that may come.

Monitor Implementation

The sanctioning state should monitor the execution of the strategy and continuously recalibrate its initial assumptions of target state resolve, the efficacy of the pain applied in shattering that resolve, and how best to improve the strategy.

The problems with the Iran strategy increase the importance of the monitoring mission. There is evidence it is being undertaken seriously, including the COSCO sanctions. Moreover, there have been a number of designation packages for sanctions evaders and front companies over the last year, all of which suggest a still powerful identification and enforcement effort underway by the State and Treasury departments, in coordination with the intelligence community. As painstaking as this work often is, for a sanctions campaign that is already possibly in its maximum pressure phase, enforcement is the central challenge and one that the United States appears to be taking seriously.

However, the likelihood of substantial sanctions evasion, especially oil sales to China, is troubling from a sanctions design perspective. It highlights the degree to which US sanctions implementation remains a unilateral exercise and the limits this places on implementation and enforcement. Without cooperation from other partners, the United States is forced to handle implementation largely on its own, and—as the author argued several months ago¹⁷—this means it will spend a substantial effort trying to police behavior that foreign partners are ready to ignore.

Still, the Trump administration deserves some credit: Its sanctions enforcement operation has been sufficiently robust so that Iran does not appear to have increased its oil exports in recent months, and even those institutions that were expected to facilitate evasion (such as the Bank of Kunlun) may not be doing so.

Explain Removal

The sanctioning state should present the target state with a clear statement of the conditions necessary for the removal of pain, as well as an offer to pursue any negotiations necessary to conclude an arrangement that removes the pain while satisfying the sanctioning state's requirements.

Linked very closely to the problems of the Trump administration's communications issues of its sanctions objectives is the difficulty of explaining in which contexts US sanctions against Iran would be removed. Simply put, the United States has implied both that it could remove the sanctions for hardly anything—in the case of the September 2019 Macron-led

declaration process—and that it would only do so for everything—in the case of the Pompeo 12 steps. There is a fairly wide gap between these two positions and, consequently, in Iran's understanding of what would actually be required from it.

Prepare Alternatives

The sanctioning state should accept the possibility that, notwithstanding a carefully crafted strategy, it may fail because of inherent inefficiencies in the strategy, a misunderstanding of the target, or an exogenous boost in the target's resolve and capacity to resist. Either way, a state must be prepared to acknowledge its failure and change course or to accept the risk that continuing with its present course could create worse outcomes in the long run.

The United States' inability to articulate clearly its real demands is an even greater problem insofar as it is uncertain whether the administration is considering any other approach to sanctions. Certainly, the diplomatic approach envisioned—at times—by the president would be an indication of an alternative, but it has yet to be substantiated by any other official commentary. Moreover, unlike with the Obama and Bush administrations, there is little discussion of the contours of a negotiation with Iran through which one can identify a framework for how alternative strategies could be employed (the primary example being the dual track strategy of negotiations and pressure articulated from 2006–2013). Extensive military force does not appear to be an option, based on Trump's words and actions. He has shown an aversion to a substantial military presence in the Middle East and a reluctance to use force in response to the Abqaiq incident or downing of the US drone in early summer 2019, and he has stated that the United States does not need or want to serve as the guarantor of security in the Persian Gulf. But, as stated, the diplomatic path is also very muddled.

Conclusions

The impression left from the Trump administration's approach to sanctions against Iran is one of tactical efficiency and strategic drift. There has been a high cost imposed on Iran that Iran's leaders are clearly being forced to manage. At the same time, the sanctions do not appear to be affecting Iran's political leadership. There has been no demonstrable shift in Tehran's perspectives of its options or its best method for obtaining the relaxation of pressure. Instead, Iran's leaders seem convinced that—at least for the near term—their best approach is to evade sanctions, minimize their effects, and profit from their application in terms of domestic reform. As long as this is the viewpoint of Washington's opponents in Tehran, it is hard to give a passing grade to the sanctions strategy employed.

For the Trump sanctions strategy to be more effective, fundamental changes need to be introduced into the approach. First and foremost, the author recommends a clear enunciation of the sort of diplomatic agreement that the United States would be prepared to accept, including whether and how it would be prepared to sequence the execution of its various demands with robust sanctions relief. Of course, this also assumes that the Trump administration *adopts* such an approach. But, without a sense of how the United States would propose rendering its broad, vague requirements into a viable approach, the Iranians are likely to remain confused as to US intentions and what they need to do. The United States can then complement a statement of purpose with an offer to meet with Iran at *expert and*



senior political levels to talk through the mechanics of negotiations and a possible agreement. Presidential-level engagement may be emotionally satisfying for Trump and could be useful toward the end of a process, but Trump has no reservoir of trust with the Iranians, and they will need to see a real sense of commitment to real negotiations and process, rather than a desire for a photo opportunity, if they are to participate in talks. This can start with serious, sober, and confidential direct talks.

Importantly, the United States also needs to rebuild its international partnerships by setting aside rhetoric that is hostile to steps such as the European INSTEX arrangement, which would facilitate humanitarian trade with Iran, and by stopping threats to the economic interests of important countries that can either enable or badly impede US sanctions pressure on Iran (such as China and India). Threats and bullying tactics have gotten the United States this far, but it is unclear how sustainable they are, especially if the sense of threat and deterrence from them is waning. To be effective—including in the message sent to Iran—the United States also needs to show that it knows how not to impose sanctions.

Acknowledgments

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This work was made possible by support from the Center on Global Energy Policy. More information is available at <https://energypolicy.columbia.edu/about/partners>.

Notes

1. <https://www.gibsondunn.com/2018-year-end-sanctions-update/>.
2. A list of recent publications by the author on this topic is provided below in the “About the Author” section.
3. Richard Nephew, *The Art of Sanctions: A View from the Field* (New York: Columbia University Press, 2018), 180.
4. <https://www.heritage.org/defense/event/after-the-deal-new-iran-strategy>.
5. <https://www.heritage.org/defense/event/after-the-deal-new-iran-strategy>.
6. <https://www.reuters.com/article/us-japan-usa-iran/trump-says-iran-nuclear-deal-achievable-as-sanctions-sting-idUSKCN1SXOVF>.
7. <https://www.politico.eu/article/trump-rouhani-agreed-4-point-plan-before-iran-balked-french-officials/>.
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9. <https://www.imf.org/en/Publications/WEO/Issues/2019/03/28/world-economic-outlook-april-2019>.
10. <https://lobelog.com/is-irans-economy-sliding/>.
11. <https://www.washingtonpost.com/news/opinions/wp/2018/09/27/the-press-conference-from-the-twilight-zone/?noredirect=on>.
12. <https://www.state.gov/testimony-before-the-senate-foreign-relations-committee-2/>.
13. <https://www.politico.eu/article/trump-rouhani-agreed-4-point-plan-before-iran-balked-french-officials/>.
14. <https://www.reuters.com/article/us-iran-nuclear-usa-china/unipen-replaces-ship-charters-after-u-s-sanctions-cosco-tanker-units-sources-idUSKBN1WB1XY>.
15. <https://www.treasury.gov/resource-center/sanctions/OFAC-Enforcement/Pages/20191024.aspx>.
16. <https://www.treasury.gov/resource-center/sanctions/OFAC-Enforcement/Pages/20190920.aspx>.
17. <https://energypolicy.columbia.edu/research/commentary/us-drive-end-iranian-oil-exports-expectations-risks-and-outcomes>.

About the Author

Richard Nephew joined the Center on Global Energy Policy in February 2015 directly from his role as principal deputy coordinator for sanctions policy at the US Department of State, a position he held since February 2013. Nephew also served as the lead sanctions expert for the US team negotiating with Iran. From May 2011 to January 2013, Nephew served as the director for Iran on the national security staff, where he was responsible for managing a period of intense expansion of US sanctions on Iran.

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