

U.S. AND IRANIAN STRATEGIC COMPETITION

The Sanctions Game: Energy, Arms Control, and
Regime Change

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EXECUTIVE SUMMARY

This report finds that the US and Iran compete in three key civil areas—energy, arms control, and regime change. Both sides harbor both legitimate and exaggerated grievances that have reinforced a long, historic, and mutual distrust, which now affects every aspect of US-Iranian competition. While most of the competition in these areas plays out in political and diplomatic circles, mainly in the form of US-led efforts at imposing international sanctions and Iranian attempts to counter them, this competition cannot be separated from its military dynamics. In fact, Iran's search for nuclear weapons and long-range missiles, military buildup in the Gulf, overt threats towards Israel, and ties to Syria and extremists in the Levant are all key reasons for US efforts to counter with sanctions and to encourage regime change in Iran.

These patterns of civil and military competition play out on a country-by-country basis and differ by sub-region. There are, however, broad patterns in civil competition between the US and Iran that helps shape what has become a much broader and constantly mutating game of three-dimensional chess.

Sanctions and Diplomacy

- US and international sanctions and related diplomatic efforts have become key tools across the entire US-Iranian spectrum of competition. Their history is long and fraught with complexities, and their effect so far is uncertain and controversial. But any analysis of the patterns in this competition does show they have had an impact on Iran—one greatly compounded by the economic policies and mistakes of its regime.

Energy

- Iran's energy resources, and the potential attractiveness of investment in those resources, are key tools in Iran's efforts to avoid containment and sanctions, increase its revenue, and win leverage and influence over other states. Iran seeks to exploit the fact that it is one of the world's three largest holders of proven conventional oil and natural gas reserves. It claims to have over 137 billion barrels of oil reserves, and the US Energy Information Agency (EIA) notes that Iran is OPEC's second-largest crude oil producer and exporter after Saudi Arabia. Iran's energy sector, however, suffers from systemic problems with its infrastructure, capacity, and access to effective distribution channels. Tehran is highly dependent on foreign investment in order to develop, extract, and refine many of its natural resources which makes it highly vulnerable to sanctions and external constraint.

Arms Control

- The US and Iran also compete in arms control. The US and its allies make use of the Nuclear Non-Proliferation Treaty, the inspection and reporting role of the International Atomic Energy Agency (IAEA), arms control treaties like the CWC, and conventions affecting the transfer of missiles with ranges above 300 kilometers (MTCR) to try to halt Iran's efforts to acquire nuclear armed missiles and other weapons of mass destruction. Iran counters by calling for a weapons mass destruction free zone in the Middle East that focuses attention on Israel and by denying and concealing activities that openly violate its arms control commitments.

Regime Change

- While the Congress has funded such efforts, and the US has created a series of programs that aid Iran's external and internal opposition, the US role in seeking regime change in Iran is sometimes exaggerated, as much by Iran's regime as Iranian and US advocates of regime change. The fact remains, however, that the Iranian regime has made itself increasingly vulnerable to such US efforts and they can hardly be ignored.

This competition takes place at levels ranging from the national to the IAEA and the UN. The patterns in this competition have become extremely complex and it is tempting to focus

separately on each of aspects of the civil competition that have been outlined above. In practice, however, the patterns of interaction between each form of competition have acquired a cyclical consistency that seems likely to go on indefinitely into the future. As Iran moves forward in areas that could give it nuclear weapons and long-range missiles, the United States will most likely react with diplomacy, sanctions, arms control initiatives, and efforts to strengthen US and Southern Gulf military forces and deterrent capabilities.

Managing the interlocking relationships between China, Russia, Turkey, and Iran is a vital component of effective US policy in this area. The Chinese and Russians both primarily concerned with advancing their own interests, and they each maintain robust commercial ties with Iran, are ambivalent about strong US regional influence, and have veto power at the UN Security Council. These factors make them essential players in US-Iranian Competition. Turkey, similarly, is an ambitious regional power with growing ties to Iran. The Turkish-Iranian relationship is important for Washington to manage because of Turkey's growing regional clout and its proximity to American ground forces in Northern Iraq.

It is increasingly doubtful, however, that sanctions and negotiations will change Iran's behavior, that sanctions can be expanded to cripple Iran's energy sectors, or that arms control options will become anything other than an extension of diplomatic warfare. There are no political or diplomatic options that can force Iran to change. At the same time, one should not ignore the reality that Iran's internal politics offer real hope that a more moderate and pragmatic regime may eventually emerge. Patience, sanctions, and diplomacy do offer hope of buying time in allowing such change. Military deterrence and containment can be partners to such efforts, but it is obvious that any use of force presents major risks that could not only lead to far more dangerous forms of US and Iranian competition, but create an open-ended set of new risks to global energy supplies and the global economy.

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The US and Iran compete in three key civil areas—energy, arms control, and regime change. Both sides harbor both legitimate and exaggerated grievances that have reinforced a long, historic, and mutual distrust, which now affects every aspect of US-Iranian competition. From the Iranian perspective, the CIA and British backed overthrow of Prime Minister Mohammad Mossadeq in 1953 and American support for the Shah laid the foundation for Iran's current antagonism and suspicion of American motives. From the American perspective, Ayatollah Khomeini's overthrow of the US-allied Shah in 1979 and the subsequent 444-day hostage crisis shaped a climate of hostility through which Iranian actions and intentions are now judged.

While most of the competition in these areas plays out in political and diplomatic circles, mainly in the form of US-led efforts at imposing international sanctions and Iranian attempts to counter them, this competition cannot be separated from the military competition that has been described in the previous chapter. In fact, Iran's search for nuclear weapons and long-range missiles, military buildup in the Gulf, overt threats towards Israel, and ties to Syria and extremists in the Levant are all key reasons for US efforts to counter with sanctions and to encourage regime change in Iran.

These patterns of civil and military competition play out on a country-by-country basis and differ by sub-region. There are, however, broad patterns in civil competition between the US and Iran that helps shape what has become a much broader and constantly mutating game of three-dimensional chess.

Sanctions and Diplomacy

- US and international sanctions and related diplomatic efforts have become key tools across the entire US-Iranian spectrum of competition. Their history is long and fraught with complexities, and their effect so far is uncertain and controversial. But any analysis of the patterns in this competition does show they have had an impact on Iran—one greatly compounded by the economic policies and mistakes of its regime.

Energy

- Iran's energy resources, and the potential attractiveness of investment in those resources, and access to Iranian markets are key tools in Iran's efforts to avoid containment and sanctions, increase its revenue, and win leverage and influence over other states. Iran seeks to exploit the fact that it is one of the world's three largest holders of proven conventional oil and natural gas reserves. It claims to have over 137 billion barrels of oil reserves, and the US Energy Information Agency (EIA) notes that Iran is OPEC's second-largest crude oil producer and exporter after Saudi Arabia, and normally ranks as the fourth-largest exporter of crude oil globally after Saudi Arabia, Russia, and the United Arab Emirates – averaging some 3.8 million barrels a day in recent years. EIA reporting indicates that Iran has some 1,045 trillion cubic feet (Tcf), second only to Russia. The EIA estimates that over two-thirds of Iranian natural gas reserves are located in non-associated fields, and have not been developed. Iran badly needs foreign technology and investment to maintain and expand its oil and gas exports, and the continued exploration and production of the offshore South Pars natural gas field in the Persian Gulf is a key part of Iran's energy sector development plan.¹

Arms Control

- The US and Iran also compete in arms control, although it can be argued that this is simply another form of military competition. The US and its allies make use of the Nuclear Non-Proliferation Treaty, the inspection and reporting role of the International Atomic Energy Agency (IAEA), arms control treaties like the CWC, and conventions affecting the transfer of missiles with ranges above 300 kilometers (MTCR) to try to halt Iran's efforts to acquire nuclear armed missiles and other weapons of mass destruction. Iran

¹ This analysis draws upon the data in the Energy Information Agency (EIA) of the US Department of Energy's country report on Iran as of July 2011: <http://www.eia.gov>.

counters by calling for a weapons mass destruction free zone in the Middle East that focuses attention on Israel and by denying and concealing activities that openly violate its arms control commitments.

Regime Change

- While the Congress has funded such efforts, and the US has created a series of programs that aid Iran's external and internal opposition, the US role in seeking regime change in Iran is sometimes exaggerated, as much by Iran's regime as Iranian and US advocates of regime change. The fact remains, however, that the Iranian regime has made itself increasingly vulnerable to such US efforts and they can hardly be ignored.

This competition takes place at levels ranging from the national to the IAEA and the UN. The patterns in this competition have become extremely complex and it is tempting to focus separately on each of aspects of the civil competition that have been outlined above. In practice, however, the patterns of interaction between each form of competition have acquired a cyclical consistency that seems likely to go on indefinitely into the future. As Iran moves forward in areas that could give it nuclear weapons and long-range missiles, the United States will most likely react with diplomacy, sanctions, arms control initiatives, and efforts to strengthen US and Southern Gulf military forces and deterrent capabilities.

Tehran frequently acknowledges Washington's diplomatic efforts and sometimes appears to respond to them. It then uses tactics like delays, denials, and counterattacks on US positions and goes forward with its existing plans and program. Even if promises are made, progress is not. Iran continues to pursue its nuclear program without full compliance with IAEA safeguards, without negotiating tangible agreements with either the US or other members of the P5+1, and with little practical regard to UN sanctions.

The Iranians utilize a host of tactics to undermine multilateral support for sanctions. Tehran can offer economic opportunities to nations that skirt or weaken sanctions because other countries voluntarily suspend ties with the Islamic Republic. This effort has had an important impact on China, Russia, and other states that support the sanctions process. It has delayed and weakened UN efforts, limited the impact of the P5+1 negotiating process, and has had a wider impact on other states, including key players like Turkey.

Iran's tactics of "delay, denial, and moving forward" have forced American policymakers to either take a more confrontational approach to nations outside its sanctions regime—sometimes pushing them further towards cooperation with Iran—or to accept a weakening of sanctions and pressures on Iran. At the same time, Iran's tactics have led the US to repeatedly make it clear that while it prefers a negotiated solution, it is keeping military options on the table. They also have led the US to increase pressure on other states, to use the UN sanctions process, and to limit all major arms sales and all nuclear and missile-related technology transfers to Iran.

Iran has responded by steadily building up its conventionally armed long-range missile capabilities, its capabilities to conduct asymmetric warfare in the Gulf, and its capabilities to respond to any US or Israeli attack on Iran by expanding its ties with Syria and with hostile states as far away as Venezuela and by using its ties to non-state actors as a potential threat. The end result is that there are no clear boundaries to this aspect of US and Iranian competition. They affect a broad range of diplomacy, competition within the UN framework, sanctions and related economic and arms transfer efforts, energy exports and investment opportunities in Iran, and a wide range of competition in military options.

The interaction between Iran's nuclear programs and US sanctions efforts is the most direct and visible aspect of this competition and as the US continues to employ both carrots and sticks to try to alter Iranian behavior, the pattern continues. Tehran's gradual progress, however, calls into question the efficacy of the American approach. Sanctions and diplomacy have successfully slowed Iran's nuclear development and affected Iran's economy, but US actions have not changed Tehran's strategic calculus or the shape of its nuclear and missile efforts.

What remains unclear is how Tehran's nuclear programs fit into its grand strategic framework, and whether such a framework even exists. The record to date suggests that Tehran does not have a master plan for developing nuclear and missile capabilities, but it has instead evolved its programs in ways that are driven by a combination of ideological, religious, and opportunistic politics and policies. Its leadership focuses constantly on shifting domestic and foreign policy issues. Moreover, while Iran's actions are driven by broad national security goals, Iran's decisions at any given time may be affected by individual personalities or bureaucratic institutions.

The US and its allies face Iranian interests that go far beyond any concern with using nuclear power to generate electricity. Many experts agree that Iranian national security interests are built upon two central pillars.² First, the Islamic Republic seeks to protect itself from foreign, principally American, interference and attack. Second, Tehran attempts to exert military, political, economic, and religious influence commensurate with its ambitions to be a great power and major player in world politics. Iran has pursued these objectives by developing its nuclear and missile capabilities, strengthening existing economic ties and its energy sector, undermining US regional influence, and attempting to circumvent US and UN sanctions.

In contrast, the United States aims to bolster its regional allies, contain Iranian influence, and build a global consensus against Iran's ambiguous nuclear intentions. The US has done so by influencing the regional military balance, reorienting missile defenses, and isolating Iran from energy, financial, and commercial markets through sanctions.

The Sanctions Game

Sanctions, and their related diplomatic efforts, have become a key instrument for the US and other international entities in competing with an Iranian ambition that the US perceives as inherently destabilizing to the international order. Their history is long and fraught with complexities, and their effect so far is uncertain and controversial.

But any analysis of the patterns in this competition does show they have had an impact on Iran—one greatly compounded by the economic policies and mistakes of the Iranian regime. Because so many major economic powers have imposed their own sanctions on Iran, sanctions are harming key sectors of Iran's economy, despite Iranian claims to the contrary.

Iran has responded by leveraging its international economic position through its energy exports, by talking about the right to nuclear programs, and by using Arab interest in a weapons of mass destruction free zone in the Middle East to shift the focus to Israel and away from the threat Iran's actions pose to Arab states, forcing American policymakers to either take a more confrontational approach to nations outside its sanctions regime—sometimes pushing them

² Katzman, Kenneth, "Iran: US Concerns and Policy Responses," Congressional Research Service, 9 June 2011, <http://www.fas.org/sgp/crs/mideast/RL32048.pdf>; Katzman, Kenneth, "Iran Sanctions," Congressional Research Service, 22 June 2011, <http://www.fas.org/sgp/crs/mideast/RS20871.pdf>

further towards cooperation with Iran—or to accept a weakening of sanctions and pressures on Iran.

US Unilateral Sanctions – A Brief Background

Since the overthrow of the Shah, sanctions have been the main diplomatic weapon utilized by the US in competing with Iran across a broad spectrum of issues. Beginning after the 1979 Islamic Revolution, Washington has imposed a swath of sanctions on Tehran (see **Figure 4.1**). They have focused on Iranian activities ranging from petroleum exports and investments to arms control and non-proliferation measures. The sanctions block US companies from operating in Iran and give the US a strong incentive to block US firms' foreign competitors from operating there as well. And while their aim has been broad, they have all sought to destabilize the current Iranian regime by isolating it politically and economically from the international community.

The first major period of US sanctions began in 1979. Bilateral relations hardened between the US and Iran following the Islamic Revolution and the after November's hostage crisis. In response, President Carter laid out a series of economic sanctions that were intended both to punish Tehran and to change its behavior.³

The Reagan Administration continued this trend and declared Iran “a sponsor of international terrorism,” making Iran ineligible for various forms of US foreign assistance.⁴ Reagan also prohibited Iran from receiving US arms under the US Arms Export Control Act,⁵ and by Executive Order, a ban was imposed on US imports of Iranian crude oil and all other Iranian imports in 1987.⁶

Under President H.W. Bush, the Iran-Iraq Arms Non-Proliferation Act was signed into law. It included provisions regarding dual-use items with potential military purposes and called for the sanctioning of any person or entity that assisted Tehran in weapons development or acquisition of chemical, biological, nuclear, or destabilizing numbers and types of advanced conventional weapons.⁷

Unilateral sanctions against Iran expanded considerably under the Clinton administration. Executive Order 12957 banned all U.S. participation in the development of petroleum in Iran,⁸ Executive Order 12959 broadened the sanctions to encompass a total trade and investment embargo,⁹ and the Congress overwhelmingly passed the Iran and Libya Sanctions Act (ILSA), expanding U.S. sanctions legislation to cover foreign companies.¹⁰

³ Sabatini, Richard, “Economic Sanctions: Pressuring Iran’s Nuclear Program,” Monterey Institute for International Studies, Nuclear Threat Initiative, June 24, 2010, <http://www.nti.org>.

⁴ Sabatini, Richard, “Economic Sanctions: Pressuring Iran’s Nuclear Program,” Monterey Institute for International Studies, Nuclear Threat Initiative, June 24, 2010, http://www.nti.org/e_research/e3_economic_sanctions_pressuring_iran_nuclear_program.html#fn1

⁵ The Arms Export Control Act, US Department of State. http://www.pmddtc.state.gov/regulations_laws/aeca.html

⁶ Executive Order 12613--Prohibiting imports from Iran, The National Archives. <http://www.archives.gov/federal-register/codification/executive-order/12613.html>

⁷ <http://www.mafhoum.com/press3/108E16.htm>

⁸ Executive Order 12957. <http://www.iraniantrade.org/12957.htm>

⁹ Executive Order 12959. <http://www.iraniantrade.org/12959.htm>

¹⁰ Iran and Libya Sanctions Act of 1996, from the congressional record. http://www.fas.org/irp/congress/1996_cr/h960618b.htm

During the George W. Bush Administration the ILSA received an extension in 2001 and again in 2006 and was renamed the Iran Sanctions Act.¹¹ Executive Order 13382 was issued, which intended to freeze the assets of proliferators of WMD and their supporters and isolate them financially—eight Iranian entities and external organizations that were believed to be supporting Iranian WMD programs were sanctioned.¹² In 2006, Congress passed the Iran, North Korea, and Syria Nonproliferation Act (INKSNA), which provided penalties for the transfer to, or acquisition from Iran, of equipment and technology controlled under multilateral control lists (the Missile Technology Control Regime, Australia Group, Chemical Weapons Convention, Nuclear Suppliers Group, Wassenaar Arrangement).¹³

As Iran's nuclear program has taken center stage, policymakers during the Obama Administration have drastically increased the size and scope of US unilateral sanctions. In 2010, Congress passed the Comprehensive Iran Sanctions, Accountability, and Divestment Act (CISAD). It imposed sanctions on any person that makes an investment of \$20 million or more in Iran's petroleum industry; any person that provides Iran with goods, services, technology or information with a fair market value of \$1 million or more for the maintenance or expansion of Iran's production of refined petroleum products; and/or any person that exports more than \$1 million worth of gasoline to Iran or provides \$1 million worth of goods or services that could contribute to Iran's ability to import gasoline.¹⁴

Since 2010 the United States has increasingly focused on isolating Iran economically by targeting Iran's financial and commercial system. In doing so, the US has hoped to obstruct Iran's connections to international markets and dismantle the means by which it conducts economic transactions. This makes sense given the composition of Iran's GDP:

- Industry, including Iranian petroleum and petrochemical products, comprises 45.2% of Iran's GDP.¹⁵
- Services, including banking and trade-related services, account for 43.9% of its GDP.¹⁶

As a result, US sanctions have affected a number of Iran's economic sectors; as has the steady increase in the number and scope of international sanctions.

Figure 4.1 Major US Unilateral Sanctions against Iran

Year	Sanction	Content
1979	Executive Order 12170	Blocked all property owned by the Central Bank and the government of Iran within U.S. jurisdiction.
1980	Executive Order 12205	Created an embargo on US exports to Iran
	Executive Order 12211	Imposed a ban on all imports from Iran and prohibited US citizens from traveling to Iran or conducting financial transactions there.

¹¹ <http://www.mafhoum.com/press3/108E16.htm>

¹² Executive Order 13382. US Department of State. <http://www.state.gov/t/isn/c22080.htm>

¹³ U.S. Department of State. Iran, North Korea, and Syria Nonproliferation Act Sanctions (INKSNA), www.state.gov

¹⁴ Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010. http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=111_cong_reports&docid=f:hr512.111.pdf

¹⁵ CIA World Factbook, Iran.

¹⁶ CIA World Factbook, Iran.

1986	US Arms Export Control Act	Prohibited the sale of U.S. arms to Iran.
1987	Executive Order 12613	Banned all Iranian imports to the US
1992	Iran-Iraq Arms Non-Proliferation Act	Imposed sanctions on any entity that helped Iran develop or acquire weapons of mass destruction or “destabilizing numbers” of advanced conventional weapons.
1995	Executive Order 12957	Banned any American firm or individual from investing in or developing Iranian petroleum products, not including natural gas.
	Executive Order 12959	Banned all American trade and investment in Iran.
1996	Iran and Libya Sanctions Act	Sanctioned foreign firms that conducted business with Iran.
2005	Executive Order 13382	Froze the assets of proliferators of WMD and their supporters and isolated them financially. Eight Iranian entities and external organizations believed to be supporting Iranian WMD programs were designated under the executive order and sanctioned.
2006	Iran, North Korea, and Syria Nonproliferation Act	Penalized entities and individuals for the transfer to or acquisition from Iran since January 1, 1999, of equipment and technology controlled under multilateral control lists (the Missile Technology Control Regime, Australia Group, Chemical Weapons Convention, Nuclear Suppliers Group, Wassenaar Arrangement).
2010	Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010	Imposes sanctions on any person that makes an investment of \$20 million or more in Iran's petroleum industry, any person that provides Iran with goods, services, technology or information with a fair market value of \$1 million or more for the maintenance or expansion of Iran's production of refined petroleum products, and/or any person that exports more than \$1 million worth of gasoline to Iran or provides \$1 million worth of goods or services that could contribute to Iran's ability to import gasoline.

Sabatini, Richard, “Economic Sanctions: Pressuring Iran’s Nuclear Program,” Monterey Institute for International Studies, Nuclear Threat Initiative, June 24, 2010, <http://www.nti.org>.

http://www.nti.org/e_research/e3_economic_sanctions_pressuring_iran_nuclear_program.html#fn1

http://www.pmddtc.state.gov/regulations_laws/aeca.html

<http://www.archives.gov/federal-register/codification/executive-order/12613.html>

<http://www.mafhoum.com/press3/108E16.htm>

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<http://www.iraniantrade.org/12959.htm>

http://www.fas.org/irp/congress/1996_cr/h960618b.htm

<http://www.state.gov/t/isn/c22080.htm>

U.S. Department of State. Iran, North Korea, and Syria Nonproliferation Act Sanctions (INKSNA), www.state.gov.

International Sanctions – A Competition for Influence

International sanctions have had growing importance since 2006 when the UN Security Council passed Resolution 1737 banning nuclear cooperation with Iran. The UN has now passed seven resolutions on Iran, four of which have imposed sanctions (see **Figure 4.2**). The US and Iran, have competed for Russian and Chinese support throughout this process while America's key European allies (Britain, France, and Germany) have played a growing role in shaping sanctions and the diplomatic process that has followed

Figure 4.2 UN Sanctions against Iran

Year	Sanction	Content
2006	Resolution 1737	Halted nuclear cooperation with Iran, demanded Tehran's compliance with the IAEA, and froze the assets of persons and organizations linked the Iran's nuclear and missile programs. It also established a committee to ensure that sanctions were implemented correctly.
2007	Resolution 1747	Banned Iranian arms exports.
2008	Resolution 1803	Strengthened travel and financial restrictions on designated Iranian individuals and companies.
2010	Resolution 1929	Imposed a complete arms embargo on Iran, banned Iran from any activities related to ballistic missiles, authorized the inspection and seizure of shipments violating these restrictions, and specifically targeted the assets of the Iranian Revolutionary Guard Corps (IRGC) and the Islamic Republic of Iran Shipping Lines (IRISL).

(Source: <http://www.un.org>)

The global sanctions regime has continued to grow since 2010. Not only has the UN implemented new multilateral sanctions, but the European Union and the US have crafted additional sanctions and consistently pushed for broader international adoption of these optional constraints.¹⁷ This US led coalition has rolled out strong new limitations on Iranian financial institutions, energy exports, and weapons acquisition. Kenneth Katzman explains that the expanded sanction regime has been widely implemented by US allies, though compliance from Iran's neighbors remains a challenge.

U.S. allies have supported the Obama Administration's sanctions toward Iran, in part because the approach is perceived as not purely punitive, and in part because concerns about Iran's nuclear advancement have increased. U.S. and European/allied approaches have been gradually converging since 2002, when the nuclear issue came to the fore, but as of 2010, an unprecedented degree of global consensus has emerged on how to deal with Iran. There is a degree of consensus among experts that many countries, not only allies of the United States, are complying with the provisions of U.N. sanctions, but there are selected exceptions (discussed below). Implementation appears to be somewhat less complete in Iran's immediate region,

¹⁷ Matthew Levitt, Financial Sanctions, The Iran Primer, USIP, December 2010. <http://iranprimer.usip.org/resource/financial-sanctions>

perhaps because its neighbors do not want confrontation with Iran and are hesitant to disrupt traditional relationships among traders and businessmen in the region.¹⁸

Iran has tried to counter by leveraging its economic resources. Non-Western powers such as Russia and China figure prominently in Iran's alliance strategy. Iran has also increasingly sought close ties with regional powers such as Brazil and Nigeria and non-democratic governments, including the regimes of Hugo Chavez in Venezuela and Robert Mugabe in Zimbabwe. IRI strategy is anchored in the conviction that non-Western states share an interest in balancing US and Western power in the international system. As President Ahmadinejad has said, "We [non-Western nations] have to develop a proper coordination [...] to wriggle ourselves from the domination of Western powers."¹⁹

The European Union and Other Western Nations

Ahmadinejad's inflammatory remarks have had an impact on relations with Europe. His controversial comments on Israel and denial of the Holocaust, which are particularly sensitive issues there, have poisoned the diplomatic climate and have destroyed any inroads achieved during the Khatami presidency.²⁰

In the EU's July 27, 2010 sanctions measures, the European countries in the EU imposed sanctions on Iran that exceeded those mandated in Security Council resolutions. Concurrent with the EU announcement, Norway, Canada, and Australia all announced similar, though less sweeping, sanctions.²¹

Despite taking this stand with Iran, the EU made it clear in late October 2010 that its sanctions do not prohibit importation of Iranian oil and gas, nor do they ban exports of gasoline to Iran.²² This is consistent with the EU's interest in any opportunity to diversify its gas supply options and reduce its reliance on Russian gas imports, which in 2008 amounted around 32% of total EU demand.²³

Japan and South Korea

Both Japan and South Korea acceded to the US-led unilateral sanctions in September 2010. These decisions came only after strong encouragement from the United States. Both nations had substantial commercial and energy ties to Tehran and were hesitant to endanger their economic interests. Japan and South Korea both imported roughly 10 percent of their crude oil from Iran and leaders in Tehran made it clear that full sanction implementation would not go unnoticed.²⁴ The head of the Iranian National Security and Foreign Policy Commission warned that, "Joining the sanctions that are beyond the (UN Security Council) resolutions and are imposed under the

¹⁸ Kenneth Katzman, "Iran Sanctions," CRS, June 22, 2011. Pg.42

¹⁹ Steven Heydemann, "Iran's Alternative Allies," The Iran Primer, USIP, December 2010.
<http://iranprimer.usip.org/resource/irans-alternative-allies>

²⁰ Walter Posch, "Iran and the European Union," The Iran Primer, USIP, December 2010.
<http://iranprimer.usip.org/resource/iran-and-european-union>

²¹ Kenneth Katzman, "Iran Sanctions," CRS, June 22, 2011.

²² Kenneth Katzman, "Iran Sanctions," CRS, June 22, 2011.

²³ "The Nubucco Pipeline Project: Gas Bridge to Europe?," Mark Rowely, Pipeline and Gas Journal, Vol. 236 no. 9, September 2009. <http://www.pipelineandgasjournal.com/nabucco-pipeline-project-gas-bridge-europe>

²⁴ Reuters, "South Korea Imposes New Wave of Iran Sanctions", Jack Kim, September 8, 2010.
<http://uk.reuters.com/article/2010/09/08/korea-iran-idUKSGE68707X20100908>

US pressure will no doubt be a negative point for those states which comply with these illegal decisions [...] Certain countries' compliance with the illegal decisions of the arrogant powers will affect the way the Islamic Republic of Iran interacts with them,"²⁵

For Japan, imposing the sweeping new sanctions meant that Inpex Corp, a partially state-owned oil developer, abandoned a project to develop the Azadegan field in which they'd already invested \$150 million.²⁶ The Koreans endangered billions of dollars worth of shipbuilding and construction contracts with Iran.²⁷ US officials recognized the large economic sacrifices they were asking of their Asian allies and expected a less robust commitment. This unexpectedly strong move by Tokyo and Seoul reinforced the growing international consensus against the Iranian position. Secretary of State Clinton trumpeted that "The United States welcomes the announcement by Japan of new sanctions on Iran [...] [They] mark a significant step forward in the international community's efforts to combat proliferation and prevent Iran's development of nuclear weapons."²⁸

India

India has traditionally had close ties to Iran and been unwilling to impose stringent sanctions. India imports some 12 million barrels of Iranian crude oil every month. This accounts for 12 percent of all Indian oil imports, making Iran their largest supplier after Saudi Arabia.²⁹ As Iran's image throughout the Arab world has foundered, however, and international pressure on the regime has increased, India has practiced a more assertive foreign policy with Tehran. Leaked diplomatic cables have revealed India's growing interest in the Iranian sanction regime. Former foreign secretary Nirupama Rao had asked then US ambassador Tim Roemer in February, 2010, that "in the future the GOI be accorded the opportunity to take part in pre-sanction consultations."³⁰

In December of 2010, the Reserve Bank of India made an unexpected decision to prohibit Indian companies from using the Asian Clearing Union (ACU) to pay Iran for oil imports. The ACU allowed companies to functionally launder payments to Iran that may have run afoul of

²⁵ Fars News Agency, "MP cautions S. Korea, Japan against implementing anti-Iran sanctions, September 8, 2011. <http://english.farsnews.com/newstext.php?nn=8906161619>

²⁶ UPI, "Iran's drive to halt oil decline falters," August 24, 2011. http://www.upi.com/Business_News/Energy-Resources/2011/08/24/Irans-drive-to-halt-oil-decline-falters/UPI-27401314208450/

²⁷ Reuters, "South Korea Imposes New Wave of Iran Sanctions", Jack Kim, September 8, 2010. <http://uk.reuters.com/article/2010/09/08/korea-iran-idUKSGE68707X20100908>

²⁸ UPI, "Japan imposes additional Iran sanctions," September 3, 2010. http://www.upi.com/Top_News/US/2010/09/03/Japan-imposes-additional-Iran-sanctions/UPI-87741283534034/

²⁹ The Associated Press, "Report: Iran threatens to cut oil supply to India by August if \$5 billion payment not made," July 18, 2011. <http://www.canadianbusiness.com/article/34462--report-iran-threatens-to-cut-oil-supply-to-india-by-august-if-5-billion-payments-not-made>

³⁰ The Times of India, "India asked US for inclusion in pre-sanction talks on Iran," September 6, 2011. http://articles.timesofindia.indiatimes.com/2011-09-06/india/30118608_1_nuclear-issue-iranian-foreign-minister-iran-shares

international sanctions.³¹ A key US Treasury official heralded the move as “a significant action” to support US sanctions and further isolate Iran from international financial institutions.³² Some experts believe, though, that Delhi stepping away from Tehran had more to do with managing their important relationships with the Arab world. P.R. Kumaraswamy, head of West Asian studies at New Delhi's Jawaharlal Nehru University, observed: "When it comes to Iran, India can ignore pressure from the U.S. and noises from Israel, but it cannot ignore concerns from the Arab countries [...] In a very subtle way, India is sending a message that its closeness with Iran will not affect relations with other Middle Eastern countries."³³ By September of 2011, India had resumed payments to Iran by using other financial intermediaries, but tensions between the two countries remain.³⁴

China and Russia

The position of Russia and China on the issue of Iranian sanctions has been one of ongoing concern to both the United States and Iran. The Russians and Chinese are two of Iran's largest economic and energy partners, and their participation in a truly demanding sanctions regime would put severe pressure on Iran -- a situation the Iranians have long sought to avoid. So far, Russia and China have acquiesced to numerous UN sanctions, but have not gone so far as to implement any unilateral sanctions of their own. The formal position of both Russia and China is that they will impose only those sanctions required by applicable UN Security Council resolutions but not impose any sanctions beyond those specifically mandated.³⁵

The unique relationship between China, Russia, Iran, and the United States will be explored more deeply in Chapter 10, but it is important to understand that this is a primary field of strategic competition. Both China and Russia are large, ambitious actors whose ties to both Iran and the US are practical rather than ideological. Beijing and Moscow serve their own interests first and view the Iranian-US contest as more of an opportunity than anything else. Their actions and motivations, therefore, need to be viewed through that prism.

China

In many ways, China holds the key to a truly successful sanctions regime on Iran. Whether the US is seeking compliance with existing sanctions or support to extend and deepen the constraints placed on Tehran, Chinese assistance will be vital to their success. Beijing's enormous demand for energy resources has led to long-standing commercial ties to the Islamic Republic, and they are not afraid to protect those interests at the UN Security Council. This has resulted in the Chinese playing a two-handed game, shielding Iranian commerce to the maximum extent possible while avoiding inflaming their Western partners.

³¹ Indian Express, "US welcomes India bid to restrict trade with Iran," December 30, 2010.
<http://www.indianexpress.com/news/us-welcomes-india-bid-to-restrict-trade-with/730980/>

³² Ibid

³³ Reuters, "India, Iran aim to resolve oil payments impasse," Nidhi Verma, December 31, 2010.
<http://in.reuters.com/article/2010/12/31/idINIndia-53860420101231>

³⁴ Bloomberg News, "India clears \$5 billion in overdue oil debt to Iran," Ladane Nasseri, September 4, 2011.
<http://www.bloomberg.com/news/2011-09-04/india-clears-5-billion-in-overdue-oil-debt-to-iran-irna-says.html>

³⁵ Kenneth Katzman, "Iran Sanctions," CRS, June 22, 2011.

Beijing is keenly aware of its own role in the regional competition for influence and view Iran as “a useful hedge against a hostile United States.”³⁶ This game has created a situation where the Chinese have supported the UN sanctions, but denounced the additional measures pushed by the US, Australia, and EU. China’s Foreign Ministry spokesman, Qin Gang, observed in 2011 that, “China has noticed the unilateral sanctions announced by the US and others over Iran. The Security Council not long ago adopted the 1929 Resolution on the Iranian issue. China believes that the resolution should be earnestly, accurately and fully implemented, instead of being arbitrarily interpreted and expanded.”³⁷

China’s primary concern is avoiding the possibility of expanded UN sanctions on Iran’s energy sector, which supplies China with around 9% of its oil, down from nearly 15% a few years ago.³⁸ Beijing only agreed to support the 2010 sanctions Resolution after the provision was altered to include key exemptions for continued foreign investment in Iran’s energy sector.³⁹

A March 2008 diplomatic cable released by Wikileaks quotes a communication between Chinese Arms Control Director General Cheng Jingye and Senate Foreign Relations Committee East Asia specialist Frank Jannuzi. Jingye says that “China has made clear its need for energy resources and has previously stated that its cooperation with Iran on energy has nothing to do with the Iran nuclear issue. [...] The threat of sanctions against Sinopec [a major Chinese oil company] is a very serious issue. [...] Sinopec is very important to China and Cheng ‘can’t imagine’ the consequences if the company is sanctioned.”⁴⁰

In response, the US has tried to reassure China that such sanctions would not be implemented, at least in the short term. In an effort to secure China’s cooperation with halting Iran’s nuclear program, US officials have told China that they do not have to reduce their Iranian oil and gas imports.⁴¹ According to a US official quoted in the Washington Post, the US is trying to encourage China to exercise “some near-term pragmatic restraint.”⁴² The top US priority, however, is halting the Iranian nuclear program, and the US is willing to make some concessions on strengthening the sanction regime in order to secure China’s cooperation on non-proliferation efforts.

Despite China’s hesitance to speak out against Iran’s nascent nuclear program, it is not eager to confront Washington. An assertive policy toward Iran allows Beijing to exercise a level of regional leadership that rivals that of the United States. Done delicately, though, the Chinese can

³⁶ John W. Garver, *China and Iran: Ancient Partners in a Post-Imperial World* (Seattle: University of Washington Press, 2007), 96.

³⁷ “Foreign Ministry Spokesperson Qin Gang’s Regular Press Conference on July 6, 2010,” Ministry of Foreign Affairs of the People’s Republic of China. <http://www.nyconsulate.prchina.org/eng/fyrth/t714568.htm>

³⁸ The Jerusalem Post, “US and China looking to Middle East for more oil,” David Rosenberg, September 9, 2011. <http://www.jpost.com/MiddleEast/Article.aspx?id=237314>

³⁹ Paul Richter, “West worries China may undermine Iran sanctions efforts,” Los Angeles Times, June 28, 2010. <http://articles.latimes.com/2010/jun/28/world/la-fg-iran-sanctions-20100628>

⁴⁰ “China undercuts sanctions on Iran”, Barbara Slavin, Politico, June 2, 2011. <http://www.politico.com/news/stories/0611/56031.html>

⁴¹ “Chinese firms bypass sanctions on Iran, US says”, John Pomfret, The Washington Post, October 8, 2010. http://www.washingtonpost.com/wp-dyn/content/article/2010/10/17/AR2010101703723_2.html

⁴² “Chinese firms bypass sanctions on Iran, US says”, John Pomfret, The Washington Post, October 8, 2010. http://www.washingtonpost.com/wp-dyn/content/article/2010/10/17/AR2010101703723_2.html

avoid conflict and flex its muscle without directly challenging broader American leadership in the Asia-Pacific.⁴³

Maintaining the freedom to pursue robust economic ties is obviously important to China, but it is becoming vital to Iran. As the Iranians have become more isolated from the international community over the last few years, their financial relationship with China has accelerated. China went from trading roughly \$14 billion a year with Iran in 2006 to becoming their most significant trading partner in 2009, with bilateral transactions totaling \$21.2 billion.⁴⁴

Iran, therefore, has strong incentives to continue to build its relationship with China. The international reputation of China may be damaged by maintaining close relations with Tehran, but there is no such risk for the Iranians. While the ethos of self-reliance has been central to Iranian strategy and rhetoric, there is, in fact, very little downside to accepting Chinese largesse.⁴⁵ The Chinese can continue to develop Iran's oil fields, provide an enormous market for its oil, supply it with weapons, and serve as an advocate at the U N Security Council. Iran would prefer to have broader access to other international partners, but given the current sanction regime, it will continue to covet Chinese support.

Russia

The US and Iran compete for Russian support on an issue by issue basis. Russian interests in Iran are more diverse than those of China and exist within a constellation of competing interests elsewhere. Russia's relationship with Iran offers it the opportunity to consolidate and expand its energy network, export arms and other goods to a hungry and sizable market, as well as being able to support a counter-weight to US regional influence in the Middle East and Caspian Sea. Policy planners in Moscow, however, also value their growing trade relationship with Israel, the benefits of economic integration with the West, and are apprehensive about the prospect of a nuclear-armed Iran. These realities have led to their often unpredictable and inconsistent support of the Iranian sanction regime.⁴⁶

While Russia has cast its Security Council vote in favor of each of the UN sanction resolutions, it has done so hesitantly and after extracting concessions.⁴⁷ Moscow's interest in diluting the sanction resolutions, however, should not be misunderstood as a strong power attempting to protect a client state. Instead, Russia used these opportunities strategically in order to advance its own national interests. Crucial exemptions were secured in 2006 that allowed Russia to maintain key contracts with Iran and continue to develop the Bushehr nuclear reactor. After securing his

⁴³“China-Iran Ties: Assessment and Implications for US Policy”, Michael Mazza, AEI Iran Tracker, April 22, 2011. http://www.irantracker.org/analysis/michael-mazza-china-iran-ties-assessment-and-implications-us-policy-april-21-2011#_edn1

⁴⁴“China-Iran foreign relations”, Ariel Farrar-Wellman, AEI Iran Tracker, July 20, 2010. <http://www.irantracker.org/foreign-relations/china-iran-foreign-relations>

⁴⁵ Michael Eisenstadt, “The Strategic Culture of the Islamic Republic of Iran,” MES Monographs No.1, August 2011.

⁴⁶ Mark N. Katz, “Russia and Iran,” The Iran Primer, USIP, December, 2010. <http://iranprimer.usip.org/resource/iran-and-russia>

⁴⁷ “The U.N. Resolutions”, Jason Starr, The Iran Primer, USIP, December 2010. <http://iranprimer.usip.org/resource/un-resolutions>

concessions from the Security Council, Russian Foreign Minister Sergey Lavrov said that “The resolution fully reflects economic interests of Russia and other partners of Iran.”⁴⁸

Similarly, Russian officials took a hard line against expanding sanctions in 2007 until disagreements over the Bushehr contract brought the two countries into conflict. In the face of soaring construction costs, the Iranians fell behind in their scheduled payments to Moscow.⁴⁹ Russian technicians and engineers were called back home, fuel shipments were canceled, and the Russians began to make back-channel ultimatums involving sanctions.⁵⁰

A senior White House official commented that “we’re not sure what mix of commercial and political motives are at play here, but clearly the Russians and Iranians are getting on each other’s nerves.”⁵¹ When the Russians cast their vote for expanded sanctions in March of 2007 they were predictably criticized by the Iranians as having given in to Western pressure. It appears clear, though, that their decision was instead meant to provide leverage in their commercial dispute with Iran. This type of strategic positioning has come to define the Russian approach to Iranian sanctions.

The Russo-Iranian commercial relationship has grown steadily over the last decade despite international sanctions. Iran has become a substantial market for Russian arms, technology, and agriculture – with annual exports exceeding \$3 billion by 2008. (See **Figure 4.3**).⁵² Yet, the robust bilateral relations of the 1990s have begun to chill as Iran becomes more isolated from the international community and Russia becomes increasingly interested in a productive relationship with the West. Moscow’s strategic acquiescence to sanctions is one of many decisions that have made it clear to Tehran that Russian support is far from assured and instead highly contingent upon their immediate priorities.

Iranian leaders recognize that fostering more reliable ties to Russia would effectively limit America’s regional hegemony in the Middle East in addition to reducing the likelihood of a military attack by the US or Israel. The opportunism of their alliance, however, continues to make the Iranians uneasy.

⁴⁸“Russian Official Hails Iran Sanctions,” The Associated Press, December 26, 2006.

<http://archive.newsmax.com/archives/articles/2006/12/25/90714.shtml>

⁴⁹ RIA Novosti, “Iran Hopes Russia Begins to Supply Fuel for Bushehr NPP in March,” June 3, 2007.

http://article.wn.com/view/2007/03/06/Iran_hopes_Russia_begins_supplying_fuel_for_Bushehr_NPP_in_M/

⁵⁰ The Toledo Blade, “Putin Pulls Plug and Deepens Rift with Iran,” March 23, 2007.

⁵¹ Ibid

⁵² Mark N. Katz, “Russia and Iran,” The Iran Primer, USIP, December, 2010.

<http://iranprimer.usip.org/resource/iran-and-russia>

Figure 4.3 Russian Trade with Iran 1995-2008

	Exports	Imports
1995	\$249 Million	\$27 Million
2000	\$633 Million	\$57.6 Million
2005	\$1.9 Billion	\$125 Million
2008	3.3 Billion	\$401 Million

(Source: <http://iranprimer.usip.org/resource/iran-and-russia>)

A further chilling of Russo-Iranian relations took place in 2009 as President Obama sought a diplomatic “reset” and Moscow was confronted with opportunities to achieve major national security goals by leaning further toward the West. The Russians were intent on securing a ‘grand bargain’ that would limit NATO expansion, end the development of a Ballistic Missile Defense in Eastern Europe, secure commitments of non-interference, and work toward nuclear parity via a new arms treaty.⁵³

The United States intentionally linked its approaches to Iran and Russia, seeking Russian support for sanctions and non-proliferation as a key part of its efforts to “reset” US and Russian relations.⁵⁴ Revelations about Iran’s secret uranium enrichment facility at Qom helped solidified the rift between Tehran and Moscow. In 2010, Russia voted in favor of the most recent round of UN sanctions and in order to fully comply, President Medvedev issued a decree canceling all sophisticated arms sales to Iran, including the eagerly anticipated S-300 missile defense system.⁵⁵

Russia’s support of the sanction regime remains sporadic. By early 2011, top Russian officials were beginning to openly question the need for ongoing sanctions and started to impugn western intelligence assessments of Iranian nuclear capacity.⁵⁶ In August, however, Moscow led a seemingly successful effort to lure Iran back into the P5+1 negotiations over their nuclear program, offering to broker a deal that would gradually ease sanctions in exchange for the Islamic Republic meeting transparency targets.⁵⁷ Iran’s chief nuclear negotiator, Saeed Jalili, declared that the Russian proposal would be the “basis to start negotiations for regional and international co-operation, specifically in the field of peaceful nuclear activities”.⁵⁸

⁵³ “Obama’s Diplomatic Offensive and the Reality of Geopolitics,” Reva Bhalla, STRATFOR, March 10, 2009

⁵⁴ STRATFOR, “Iran, Russia, US: The BMD Link,” February 11, 2009

⁵⁵ “Why Russia is Cutting Off Major Arms Sales to Iran,” Fred Weir, Christian Science Monitor, September 23, 2010

⁵⁶ Mark N. Katz, “Russia Balks at New Pressure on Iran,” The Iran Primer Blog, USIP, March 16, 2011
<http://iranprimer.usip.org/blog/2011/mar/16/russia-balks-new-pressure-iran>

⁵⁷ Lauren Gelfand, “Russia proposes incentives for Iran to comply with UN nuclear programme” Jane’s Defense Weekly, August 17, 2011

⁵⁸ Ibid

Russia seems likely to continue to use its relationship with Iran in ways designed to influence US policy toward Russia. The planners in Moscow have become adept at modulating the extent of their Iranian involvement. Accordingly, the US should not be surprised by tension in one area of their relationship being offset by rapprochement in another. While Iran will continue to compete with the United States for a more dependable alliance, the Russians seem content to keep one foot in each camp--playing the two countries off of each other. They will extract concessions in exchange for their support of future UN sanctions resolutions, but will continue to avoid imposing unilateral sanctions. Their policies will reflect a desire to maintain maximum flexibility in expanding their commercial relationship with Iran while avoiding endangering their increasingly valuable ties to the west.

Turkey

Iran has long had a suspicious and competitive relationship with Turkey. Some Iranians see Ankara's ties to the West, through NATO and the G-20, as threats to Iran's ability to counter western hegemony. Turkey's efforts to expand its role in regional leadership also make them a direct competitor to Tehran.⁵⁹ These fundamental dynamics underlie all of Turkish-Iranian relations even if immediate issues appear to be changing actions and rhetoric at the margins.

The victory of Turkey's Justice and Development Party (AKP), in 2002, did, however, usher in a new era of constructive engagement between the two countries. Under Turkish Prime Minister Erdogan, commercial ties have strengthened with Iran. Tehran now supplies a significant amount of Turkey's oil imports and total bilateral trade has grown to over 10 billion dollars in 2008.⁶⁰ The two countries have also cooperated over efforts to dismantle the Kurdish terrorist groups based along the Iraqi/Iranian border. While the United States also considers the PJAK and PKK terrorist organizations, there is some apprehension in the West about this growing military cooperation between Iran and Turkey.⁶¹

Like Russia and China, Turkey appears interested in testing the bounds of its Western allegiances just enough to allow for some policy autonomy on Iran. Mehmet Simsek, the finance minister, told the Financial Times that while Turkey supported UN sanctions, they would not shy away from promoting closer trade links with Iran, saying, "We will fully implement UN resolutions but when it comes to individual countries' demands for extra sanctions we do not have to [obey]."⁶²

Prime Minister Erdogan also articulated the limits of Turkish support for the US, the EU, France, Germany, and Britain when he accused the "West" of treating Iran unfairly over its nuclear program.⁶³ Erdogan has tried to downplay the significance of Iran's nuclear program,

⁵⁹ Henri J. Barkey. "Iran and Turkey," The Iran Primer, USIP, December 2010.

<http://iranprimer.usip.org/resource/iran-and-turkey>

⁶⁰ Ibid

⁶¹ Hawar Abdulrazzaq, "Analysts watching Turkey-Iran Military Ties, Rudaw in English, August 26, 2011. <http://www.rudaw.net/english/news/turkey/3935.html>

⁶² "Turkey throws an economic lifeline to Iran", Roula Khalaf and Delphine Strauss, Financial Times UK, July 26, 2010. <http://www.ft.com/intl/cms/s/0/611b301e-97d5-11df-b218-00144feab49a.html?ftcamp=rss#axzz1T53j9m88>

⁶³ The Guardian UK, "Turkish PM Exposes Nuclear Rift in NATO", Robert Tait, October 26, 2009. <http://www.guardian.co.uk/world/2009/oct/26/turkey-iran>

dismissing international allegations as merely “gossip.”⁶⁴ These recent decisions to side with Iran over its traditional western allies has introduced a new layer of strategic competition and caused a crisis of confidence for the United States.⁶⁵

Ankara has been careful, however, not to let its foreign policy stray too far from Western norms. Turkish Foreign Minister Ahmet Davutoglu, explicitly stated that it would condemn Iran should they renege on their commitment to the Nuclear Non-Proliferation Treaty.⁶⁶ Turkey also made sure to comply, in March of 2011, with the UN by twice forcing the landing of Iranian cargo aircraft. In both cases the aircraft were searched and in one instance weapons were removed that were allegedly bound for Syria.⁶⁷ Ankara’s tilt toward the West was evident in September of 2011 when Turkey opened up negotiations to host a key radar installation as part of the NATO early warning missile shield. This decision elicited predictable recriminations for Iran,⁶⁸ and spurred a top Western official to assert that “Turkey is back in the club.”⁶⁹ Turkey’s eventual decision to host the American radar was particularly relevant because it not only cemented relations with the US, but did so in a way that was zero-sum with Iran. The Obama Administration has overtly described the missile shield as being designed to deter Tehran, and a top White House official highlighted the import of Ankara’s move by announcing that “This is probably the biggest strategic decision between the United States and Turkey in the past 15 or 20 years.”⁷⁰

Turkey does, however, want an independent foreign policy despite the desires of both Washington and Tehran, and often seeks to make both countries compete for its allegiance on an issue-by-issue basis. Ankara will continue to position itself as a growing regional power and seek to extend its commercial and diplomatic ties as well as its broader appeal throughout the Arab world. It’s important for US policy makers to understand that the freelance foreign policy in Ankara does not represent any real allegiance to Iran. In fact, both countries recognize that they are long-term rivals, and that near-term cooperation is driven by expediency and immediate self interest. Therefore, the US should expect Turkish compliance with UN sanctions, but anticipate some push-back on other, less important, aspects of its regional agenda.

⁶⁴Henri Barkey, “What’s Turkey’s role in the second round of Iran talks?”, The Iran Primer, USIP, January 10, 2011. <http://iranprimer.usip.org/blog/2011/jan/10/whats-turkeys-role-second-round-iran-talks>

⁶⁵Henri J. Barkey. “Iran and Turkey,” The Iran Primer, USIP, December 2010.
<http://iranprimer.usip.org/resource/iran-and-turkey>

⁶⁶ Today’s Zaman, “lu Blames Israel for Failure to Mend Ties,” December 27, 2010.
http://www.todayszaman.com/newsDetail_getNewsById.action?load=detay&newsId=230778&link=230778

⁶⁷ Kenneth Katzman, “Iran Sanctions,” CRS, June 22, 2011.

⁶⁸ Tehran Times, “Iran warns over NATO’s radar system in Turkey: Minister.” September 7, 2011.
<http://www.tehrantimes.com/index.php/politics/2267-iran-warns-over-natos-radar-system-in-turkey-minister->

⁶⁹ Today’s Zaman. “Turkey reaffirms strong bonds with NATO,” Lale Kemal, September 7, 2011.
<http://www.todayszaman.com/columnist-256054-turkey-reaffirms-strong-bonds-with-nato.html>

⁷⁰ The New York Times, “U.S. Hails Deal with Turkey on Missile Shield,” Thom Shanker, September 15, 2011.
http://www.nytimes.com/2011/09/16/world/europe/turkey-accepts-missile-radar-for-nato-defense-against-iran.html?_r=1

Gulf States, Israel and the WMD Free Zone

Arms control is a two-sided issue in US and Iranian competition. The US has sought to use it to limit Iran's nuclear programs. Iran has seen a WMD Free Zone in the Middle East as a way of putting pressure on the US and Israel, gaining Arab support, and limiting Arab pressure on Iran over Iran's nuclear programs. Arab states have long called for a WMD free zone in a form that has focused on the fact Israel is the only active nuclear weapons power in the Middle East – largely ignoring their own chemical and biological weapons efforts. This gives Iran an opening, and forces the US to deal indirectly with Israel's current nuclear monopoly.

In 2010, The US, Iran and Arab nations agreed to call for UN talks in 2012 on a treaty to ban nuclear weapons from the Middle East.⁷¹ Under the treaty sponsored by the IAEA, permanent inspectors and surveillance technologies could be installed in the current or future civilian nuclear development programs of all twenty-two of the Arab League nations, plus Israel and Iran, backed by the threat of immediate sanctions and possible military action for any breaches of the agreement not to build weapons.⁷²

All Middle Eastern nations, including Israel, have agreed to participate in the 2012 Conference, but support is not solid. Israel repudiated the language of the 2010 NPT consensus agreement, which noted that Israel's entrance into the NPT would be part of the process of creating a WMD-free zone, forcing Israel to decommission its undisclosed nuclear arsenal as a result:

This resolution is deeply flawed and hypocritical. It ignores the realities of the Middle East and the real threats facing the region and the entire world. It singles out Israel, the Middle East's only true democracy and the only country threatened with annihilation. Yet the terrorist regime in Iran, which is racing to develop nuclear weapons and which openly threatens to wipe Israel off the map, is not even mentioned in the resolution...as a non-signatory state of the NPT, Israel is not obligated by the decisions of this [NPT] Conference, which has no authority over Israel.⁷³

In contrast, Iran could use the WMD free zone to save face and maintain its ostensibly civilian nuclear program and, in exchange for the decommissioning of Israel's weapons, reassure the rest of the world that Iran isn't going to get the bomb either. It would also fit into their rhetoric of claiming the West holds a "double standard" that allows Israel to go unpunished for its reputed nuclear weapons arsenal.⁷⁴

For the US, the WMD free zone is something of a dilemma. It would keep Iran from having nuclear weapons but would not eliminate the means for Iran to get the bomb. Also, the US would likely run into issues with Israel if it sided with Arab states, who do not recognize Israel, and Iran, who has openly called for Israel to be wiped off the map. So the US has been playing a delaying game on the issue.

Some key participants in the process say that US preparations for 2012 appear to be under way simultaneously with a concerted push for delay until 2013 or beyond.⁷⁵ It is possible that the US

⁷¹ BBC News, "UN talks back conference on nuclear-free Middle East", May 29, 2010.

<http://www.bbc.co.uk/news/10185256>

⁷² Time, "Is a nuclear-free Middle East a pipe dream?", Andrew Butters, September 23, 2009.

<http://www.time.com/time/world/article/0,8599,1925255,00.html>

⁷³The Prague Project, "A WMD-Free Middle East", Reid Pauly, February 24, 2011.

<http://www.pragueproject.org/2011/02/24/a-wmd-free-middle-east/>

⁷⁴ Kenneth Katzman, "Iran: U.S. Concerns and Policy Responses," CRS, 9 June 2011, p.34.

⁷⁵ Global Security Newswire, "Mideast WMD-free zone inches forward amid gripes about US role", Elaine Grossman, July 22, 2011. http://gsn.nti.org/gsn/nw_20110722_9247.php

is hoping sanctions will force Iran to end its program and give into the West's demand before any WMD-free zone comes into existence, allowing Israel to keep its supposed arsenal and giving the US a major diplomatic win.

At the same time, Arab nations have begun to consider their own nuclear programs to counterbalance a nuclear-armed Iran. A number of Arab countries have expressed a growing interest in acquiring nuclear technology. According to the New York Times, Saudi Arabia is “scrambling to hire atomic contractors, buy nuclear hardware and build support for a regional system of reactors [...]Egypt has announced plans to build one on its Mediterranean coast [...]and] roughly a dozen states in the region have recently turned to the IAEA [...] for help in starting their own nuclear programs.”⁷⁶ According to King Abdullah II of Jordan, “The rules have changed.”⁷⁷

Iran's Rhetoric on Sanctions

The official Iranian message to the world has been that it is a developing nation being bullied by a country who feels its post-Cold War hegemony waning. Iran accuses the United States and its allies of using globalization as an instrument of Western power and to impose their will on non-Western states—what Ahmedinejad calls “forced globalization.”⁷⁸ Iran also cultivates an image as the voice of all Muslims in confronting an imperialist United States—“very helpful to Ahmadinejad's desire for greatness in the Arab world.”⁷⁹

The degree to which sanctions and other external economic pressures have affected the Iranian economy has become a central theme in Iran's rhetoric. Some officials claim they have no negative effect, and actually empower Iran by driving innovation and technological advancement, while others acknowledge their deleterious effects.

Key members of the Iranian leadership have repeatedly stated that sanctions have no effect on the country's economy. On November 13, 2010, the Secretary of Iran's Expediency Council, Mohsen Rezaei stated that, “so far, sanctions have left no effect on the peoples' lifestyle.”⁸⁰ Such statements are not uncommon. In late November 2010, a close confidant and adviser to President Ahmadinejad stated that increased financial restrictions and sanctions have had “no noticeable effect” on Iran's economy.⁸¹ Shakour Akbarnejad of the Iranian Parliament's Economic Commission has stated that “history has shown that sanctions have left no negative

⁷⁶The New York Times, “Fearing Iran, Arab states seek nuclear power”, William Broad, April 15, 2007. <http://www.nytimes.com/2007/04/15/world/africa/15ihtnuke.1.5293038.html?scp=1&sq=Fearing%20Iran,%20Arab%20states%20seek%20nuclear%20power&st=cse>

⁷⁷ The New York Times, “Fearing Iran, Arab states seek nuclear power”, William Broad, April 15, 2007. <http://www.nytimes.com/2007/04/15/world/africa/15ihtnuke.1.5293038.html?scp=1&sq=Fearing%20Iran,%20Arab%20states%20seek%20nuclear%20power&st=cse>

⁷⁸ Kenneth Katzman, “Iran: U.S. Concerns and Policy Responses,” CRS, 9 June 2011, p.54

⁷⁹ The New York Times, “US walks out as Iran leader speaks”, Neil MacFarquhar, September 23, 2010. <http://www.nytimes.com/2010/09/24/world/24nations.html?sq=iran&st=cse&adxnnl=1&scp=33&adxnnlx=1311283552-mCIoV4UtUt2CQBW78uZNg>

⁸⁰Fars News Agency “EC Secretary Downplays Effects of Sanctions against Iran,” November 13, 2010. <http://english.farsnews.com/newstext.php?nn=8908221544>

⁸¹ The Washington Post. “Adviser to Ahmadinejad Says West's Sanction's Have Failed.” Erdbrink, Thomas and Serjoie, Kay Armin. November 24, 2010. <http://www.washingtonpost.com/wp-dyn/content/article/2010/11/23/AR2010112307004.html>

impact on the Iranian nation's movement and we have, in a word, become accustomed to them."⁸²

Some Iranian officials have gone so far as to claim that sanctions have benefitted Iran by engendering technological innovation and self-reliance. While speaking to reporters at the 11th exhibition of nuclear achievements at the Islamic Azad University of Mashad on November 13, 2010, the Deputy Head of the Atomic Energy Organization of Iran, Behzad Soltani, proclaimed,

All (Iran's) achievements acquired in the nuclear industry have been made during the period of sanctions. Western Sanctions have enhanced the level of our nuclear achievements in the country and caused U.S. to develop many nuclear technologies indigenously."⁸³ On March 6, 2011, Ahmadinejad made similar allusions to the alleged positive effects of sanctions on Iran's scientific and industrial development, stating that "the Iranian nation learned to rely on their (own) resources and capabilities [...] and as a result, made great scientific achievements" as a result of sanctions.⁸⁴

There are, however, individuals within the Iranian government who appraise Iran's economic situation more honestly, cautioning their colleagues about the dangers of economic sanctions and criticize the regime's economic policies. Veteran Iranian politician Akbar Hashemi Rafsanjani said the Islamic Republic was under unprecedented global pressure and that the government was wrong to dismiss the sanctions as no threat to the economy.⁸⁵ Mojtaba Vahidi, a former top-level manager who served in Iran's finance and industry ministries for more than 20 years, observed that "the economic crisis [that Iran is] witnessing today is a direct result of the sanctions—and Iranian officials who say otherwise are fooling themselves."⁸⁶

In spite of such occasional bouts of realism, Iran's continued denial of the increasing economic hardship imposed by U.S. and international sanctions appears to be the IRI's official stance, hoping that ambivalent members of the US coalition will decide to abandon the sanctions all together.

The Effect of Sanctions

Despite Iranian rhetoric to the contrary, sanctions are hurting the Iranian economy. While sanctions are not crippling the Islamic Republic, economists and analysts say they are causing prices to rise and making it increasingly difficult for Iranian companies to work internationally.⁸⁷ As a result, Iran has been less able to compete with other developing economies in international markets and the government seems unaware or unsure of how to confront the growing challenges.⁸⁸

⁸² Fars News Agency, "MP: Iran's Targeted Subsidy Plan defU.S.es Effects of Sanctions," October 30, 2010. <http://english.farsnews.com/newstext.php?nn=8908080913>

⁸³ Fars News Agency, "Official: Sanctions Accelerate Iran's Efforts to Achieve N. Progress," November 13, 2010. <http://english.farsnews.com/newstext.php?nn=8908221782>

⁸⁴ Mehr News Agency, "Western companies circumventing Iran sanctions", March 6, 2011. <http://www.mehrnews.com/en/newsdetail.aspx?NewsID=1268563>

⁸⁵ Reuters, "Iran's Rafsanjani chides Ahmadinejad over sanctions", September 14, 2010. <http://af.reuters.com/article/energyOilNews/idAFLDE68D06L20100914?sp=true>

⁸⁶ The Wall Street Journal, "Iran's Economy Feels Sting of Sanctions," Fassihi, Farnaz, October 12, 2010. <http://online.wsj.com/article/SB10001424052748703735804575535920875779114.html>

⁸⁷ The Washington Post, "Sanctions begin to compound Iran's severe economic problems", Thomas Erdbrink, October 5, 2010. <http://www.washingtonpost.com/wp-dyn/content/article/2010/10/05/AR2010100505972.html>

⁸⁸ Kevan Harris, "Iran's new economic slump", The Iran Primer, USIP, June 22, 2011. <http://iranprimer.usip.org/blog/2011/jun/21/iran's-new-economic-slump>

According to Treasury and State Department officials, at least 80 major banks have committed not to finance exports to Iran or to process dollar transactions for Iranian banks.⁸⁹ Among those that have pulled out of Iran are Credit Suisse and UBS (Switzerland), HSBC and Barclays (Britain), Commerzbank, Dresdner Bank, and Deutsche Bank (Germany), Société Générale and Le Crédit Lyonnais (France) and even the National *Bank* of Fujairah, based in Dubai.⁹⁰ This is only some of the evidence that sanctions are having a significant impact on Iran's economy, although not necessarily on its nuclear program.

Anecdotal reports also suggest that many Iranians, particularly in the middle class are blaming the regime for economic difficulties brought about by the sanctions as well as the regime's own economic missteps. There has been unrest among small and large merchants who are having trouble obtaining trade financing, insurance, and shipping availability, which is driving up their costs by an estimated 40%, if the merchants can even complete desired transactions at all.⁹¹

Sanctions have indirectly impacted Iranian monetary policy as well. US sanctions on Iranian banks have altered the availability of foreign currency, and the exchange rate of the Iranian Rial, in turn, has suffered. On September 29, 2010, Iran's currency plummeted in value, when Iranian banks temporarily stopped the sale of Dollars and Euros.⁹² The Rial fell 22% against the dollar in its first major fluctuation in years. Currency market traders blamed overseas banks for limiting the availability of foreign currency due to new restrictions.⁹³

The costs of trading with Iran have also risen substantially as a result of the US and UN sanctions. Costs associated with Iranian trade have increased by an estimated 10% to 30%, according to outside figures.⁹⁴ Official numbers from Iran's Trade Commission obviously paint a less dramatic rise; nonetheless, they still concede that sanctions have slowed the pace of trade and increased trade costs for Iran between 5% and 10%.⁹⁵

However, not all data shows that Iran is suffering. An IMF statement on June 13, 2011, casts some doubt that international sanctions are seriously harming Iran's economy. The statement, based on a May 28 to June 9 visit, indicated that Iran's GDP is growing at a rate of about 3.5%, and that the government has brought inflation down from 25% in 2008 to about 12% in 2010/2011. The IMF also credits positive economic effects to the government's privatization program. And while international sanctions increasingly are hurting the government and the private sector, Iranians seem to have faith in their economy. Tehran's stock market has seen a

⁸⁹Rachel L. Loeffler, "Bank Shots," *Foreign Affairs*, April 2009.

<http://www.foreignaffairs.com/articles/64822/rachel-l-loeffler/bank-shots>

⁹⁰Rachel L. Loeffler, "Bank Shots," *Foreign Affairs*, April 2009.

<http://www.foreignaffairs.com/articles/64822/rachel-l-loeffler/bank-shots>

⁹¹The Associated Press, "Iran's Gateway in Dubai Highlights Sanctions Bite." Brian Murphy, February 1, 2011.

<http://abcnews.go.com/Business/wireStory?id=12808709>

⁹²The Wall Street Journal, "Iran's Economy Feels Sting of Sanctions," Fassihi, Farnaz, October 12, 2010.

<http://online.wsj.com/article/SB10001424052748703735804575535920875779114.html>

⁹³The Wall Street Journal, "Iran's Economy Feels Sting of Sanctions," Fassihi, Farnaz, October 12, 2010.

<http://online.wsj.com/article/SB10001424052748703735804575535920875779114.html>

⁹⁴Rachel L. Loeffler, "Bank Shots," *Foreign Affairs*, April

2009.<http://www.foreignaffairs.com/articles/64822/rachel-l-loeffler/bank-shots>

⁹⁵Shayerah Ilias, "Iran's Economic Conditions: US Policy Issues," Congressional Research Service, April 22, 2010,

<http://www.fas.org/sgp/crs/mideast/RL34525.pdf>

huge increase in trade, and there is no clear sign of a significant capital flight.⁹⁶ Also, Iran has sizable hard-currency reserves to absorb shocks, and the isolation of its banking sector protected the country from the worst of the global financial crisis.⁹⁷ Many believe that the economic effects of international sanctions may be able to be tolerated by the regime as long as world oil prices remain high, at nearly \$100 per barrel in June 2011.⁹⁸

It is still unclear whether or not sanctions will be crippling to Iran. Hassan Hakimian, an economic expert and director of the Middle East Institute at the London School of Oriental and African Studies (SOAS) believes “the IMF is on the optimistic side and comes across as rather rash in its judgment. Most independent observers believe that it's too soon to draw such conclusions” Additionally, Hakimian notes, official data about Iran's economy such as inflation and unemployment rates are often disputed both internally and externally.⁹⁹

Though many reports and studies do indicate that sanctions are having a negative effect on the Iranian economy, it is not assured that economic trouble would weaken the government's hand. In fact, some analysts observe that Tehran has proved adept at managing any domestic economic pain in ways that strengthen their base of support. Reza Marashi, a former Iran Desk Officer at the US Department of State argues:

Sanctions exacerbate this dependence on the government. By raising the costs of doing business in Iran, sanctions slow economic development and decrease employment options for the middle class. When fewer companies invest in Iran, there are fewer jobs for skilled middle-class workers; fewer opportunities to develop professional skills; and less socially-conscious investments while the government prioritises differently to combat foreign pressure. Alternative options for Iran's middle class are increasingly narrow: unemployment, emigration, or becoming state employees. As a result, many middle-class Iranians not employed by the government live on unsustainable sources of income such as second jobs and remittances from family abroad. Survival for the middle class is at best unstable, and the conservative factions in power prefer to keep it that way - a struggling middle class focused on making ends meet is easier to control.

Sanctions have in fact strengthened the hand of conservative factions that increasingly disregard economic reforms from the 1990's and early 2000's. Instead, they have favoured economic populism and tighter government control of resources. This allows Iranian hardliners to kill two birds with one stone: reallocating resources to lower-class Iranians in an effort to expand their political base, while squeezing middle-class Iranians that are the backbone of Iran's pro-democracy movement. Together, these policies increase the percentage of the population beholden to the state for its livelihood. With no compelling alternative in sight, Iranians are less likely to revolt and bite the proverbial hand that feeds them.¹⁰⁰

⁹⁶ The Washington Post, “Sanctions begin to compound Iran's severe economic problems”, Thomas Erdbrink, October 5, 2010. <http://www.washingtonpost.com/wp-dyn/content/article/2010/10/05/AR2010100505972.html>

⁹⁷ The Wall Street Journal, “Iran's Economy Feels Sting of Sanctions,” Fassihi, Farnaz, October 12, 2010. <http://online.wsj.com/article/SB10001424052748703735804575535920875779114.html>

⁹⁹ The Guardian UK, “IMF report on Iran's economic success draws skepticism”, Saeed Kamali Dehghan, June 17, 2011. <http://www.guardian.co.uk/world/2011/jun/17/imf-report-iran-economic-success>

¹⁰⁰ Reza Marashi, “The Iran Sanctions Fallacy,” Al Jazeera, August 26, 2011. <http://english.aljazeera.net/indepth/opinion/2011/08/20118238150723914.html>

The full economic impact of sanctions and their domestic implications remain difficult to discern. It is clear, however, that sanctions have had a significant effect on Iran's ability to interact with international financial institutions and increased the diplomatic costs for Tehran's trading partners. Irrespective of whether the Iranian economy is devastated, the sanctions continue to function as a strategic tool for the United States and they have further isolated Iran in the international arena.

Foreign Companies Exiting the Iran Market

One noticeable effect that sanctions have had on Iran is the mass exodus of foreign companies who see a less favorable outlook in doing business with Iran. None of the existing sanctions ban all trade with Iran, yet because the international community has sought to isolate Iran economically, companies all over the world have decided to do business elsewhere. (see **Figure 4.4**).

Figure 4.4 Major Non-Petrol Related Foreign Companies Halting Business in Iran, 2010-2011

Country	Company	Field
China (Hong Kong)	NYK	Shipping
Denmark	Maesk	Shipping
Germany	Siemens	Telecommunications
	Thyssen-Krupp	Steel
	Daimler	Automotive
	Munich Re	Insurance
	Allianz	Insurance
	Hannover Re	Insurance
Italy	Finemeccanica	Defense/Transportation
Ireland	Ingersoll-Rand Plc	Manufacturing
Japan	Toyota	Automotive
South Korea	Kia	Automotive
	Hyundai	Automotive
Switzerland	ABB	Engineering
United Kingdom	Lloyds	Insurance

United States	Caterpillar	Construction/Mining
	Huntsman Corp	Chemical Manufacturing
	KPMG	Accounting
	PricewaterhouseCoopers	Accounting
	Ernst & Young	Accounting

Kenneth Katzman, “Iran Sanctions,” CRS, 22 June 2011, p. 55

http://www.washingtonpost.com/world/national-security/in-iran-sanctions-aim-at-shipping-lifeline/2011/07/08/gIQAyJgw7H_story.html <http://www.state.gov/r/pa/prs/ps/2011/05/164131.htm>

<http://www.foxbusiness.com/markets/markets/2010/10/01/factbox-foreign-companies-stepping-away-iran/>

Given this exodus, Iran has been scrambling to find alternative ways to import food and other critical supplies, and now Iranian officials are warning of economic pain in the months ahead—precisely the effect that US officials have been hoping for.¹⁰¹ However, US politicians and outside experts have expressed concern that Asian firms, from China in particular, as well as from Malaysia, Vietnam, and countries in Eastern Europe, are “backfilling”, or moving in to fill the void left by vacating European firms.¹⁰² Japanese and European companies have walked away from lucrative contracts and projects in Iran and they fear losing out to their competitors who may be anxious to step in.¹⁰³ Yet, most of the potential backfilling companies are perceived as not being as technically capable as those that have withdrawn from Iran and as of 2011, Administration officials have not seen evidence of such a trend.¹⁰⁴ In fact, many experts believe that, over time, the efficiency and output of Iran’s economy will decline as foreign expertise departs and Iran is forced to work with less capable foreign companies.¹⁰⁵

Energy Competition

Iranian natural energy resources have become a critical area of competition and a double-edged sword for both Washington and Tehran. Iran’s reserves rank among the largest in the world—third in global proven conventional oil deposits, second in natural gas deposits, and fourth in production of crude oil.¹⁰⁶ No outside power can ignore the potential value of energy deals with Iran, although such deals must be kept in careful perspective.

¹⁰¹The Washington Post, “In Iran, sanctions aim at shipping lifeline”, Thomas Erdbrink, June 30, 2011. http://www.washingtonpost.com/world/national-security/in-iran-sanctions-aim-at-shippinglifeline/2011/07/08/gIQAyJgw7H_story.html

¹⁰³ The Washington Post, “Chinese firms bypass sanctions on Iran, US says”, John Pomfret, October 18, 2010. <http://www.washingtonpost.com/wp-dyn/content/article/2010/10/17/AR2010101703723.html>

¹⁰⁴ Kenneth Katzman, “Iran Sanctions,” CRS, June 22, 2011.

¹⁰⁵ Ibid

¹⁰⁶ “Firms Reported in Open Sources as Having Commercial Activity in Iran's Oil, Gas, and Petrochemical Sectors,” Government Accountability Office, March 23, 2010, <http://www.gao.gov/products/GAO-10-515R>

The Iranian National Oil Company and government have done a notoriously bad job of structuring attractive proposals for outside investment and participation in petroleum deals – although they have sometimes eventually compromised on more financially realistic agreements. Iran's internal political instability presents more risk than deals and investment in a number of other countries, and other oil exporting countries are more stable and consistently offer better terms. Investment in Iranian oil and gas does not give the outside power or company control over Iran's reserves, forces it to sell to the highest bidder at world prices, and presents the constant risk of nationalization or unilateral cancellation without compensation.

Outside powers and companies are unlikely to favor Iran in ways that lead to tensions with the Arab oil and gas exporting states, and the practical value of Iran's export potential must be kept in perspective. Iran at most has some 10% of the world's conventional proven oil reserves, and its percentage of potential reserves is substantially lower.¹⁰⁷ Iran currently only produces 5.2% of world conventional oil liquids, and has been very slow to increase production. In contrast the Arab Gulf states have some 72% of the world's conventional oil reserves and produce some 25% of world oil.¹⁰⁸ Iran lacks total refinery capacity, and product export capacity, and its large, steadily growing population consumes a significantly larger part of its total production than is the case in the Arab Gulf states.

Similarly, Iran has some 16% of the world's conventional proven gas reserves, but fracturing and other technological reserves sharply reduce the importance of conventional vs. total reserves, and Iran's percentage of potentially commercial reserves may be closer to 8% than 16%.¹⁰⁹ Iran currently only produces 4.3% of world conventional gas, and has limited export capability. In contrast the Arab Gulf states have some 26% of the world's conventional gas reserves and produce some 10% of world gas.¹¹⁰

Iran also needs outside investment and technology more than outside powers need Iran. Iranian petroleum exports are a key part of Iran's national economy and its government's revenue. Oil export revenue accounts for more than 20% of their Gross Domestic Product, roughly 80% of Iran's foreign-currency earnings, and more than 60% of its budgetary revenue.¹¹¹¹¹²¹¹³ Because it represents such a large share of the Iranian economy, Iran's energy sector is as much vulnerability as a strength.

This presents a set of distinct challenges and opportunities for the United States and Iran. No international sanction currently bans business with Iran's oil and petroleum industry so competition in this sector primarily plays out with the United States and its allies attempting to

¹⁰⁷ BP, *BP Statistical Review of World Energy*, June 2011, bp.com/statisticalreview. pp. 6, 8

¹⁰⁸ BP, *BP Statistical Review of World Energy*, June 2011, bp.com/statisticalreview. pp. 6, 8

¹⁰⁹ *Ibid.* pp. 21, 22.

¹¹⁰ *Ibid.*

¹¹¹ Katzman, Kenneth, "Iran: US Concerns and Policy Responses." Congressional Research Service. December 22, 2010. <http://www.fas.org/sgp/crs/mideast/RL32048.pdf>;

Katzman, Kenneth, "Iran Sanctions." Congressional Research Service. December 13, 2010. <http://www.fas.org/sgp/crs/mideast/RS20871.pdf>;

¹¹² Katzman, Kenneth, "Iran Sanctions." Congressional Research Service. December 13, 2010. <http://www.fas.org/sgp/crs/mideast/RS20871.pdf>;

¹¹³ Economist Intelligence Unit - Iran Data, The Economist, October 2010

expand their unilateral sanctions while Iran attempts to avoid their enforcement. By forcing foreign firms to choose between Iranian and American markets, the US has further tightened sanctions on the Islamic Republic.¹¹⁴

Iran has responded both through threats and by attempting to circumvent the sanctions, and by posing military threats. Iranian senior officials and officers have threatened to close the straits of Hormuz to international shipping if sanctions continue, warning explicitly that Iran can and will block the straits in response to “any act of aggression or adventure.”¹¹⁵ It is doubtful, however, that Tehran would be able to effectively close the Straits, and such a move would endanger their relations with all countries who transport cargo through the area. One of Tehran’s most powerful strengths is their natural resources and their mutually beneficial energy relationship with China. That relationship appears to be growing in size and scope, to the possible detriment of US interests.

Iran’s Energy Sector – Further Background

This issues deserve further perspective. In 1908, Iran was the first country in the Persian Gulf to discover oil, and petroleum has been the primary industry in Iran since the 1920s. They are a member of the Organization of the Petroleum Exporting Countries (OPEC), and rank among the world’s top three holders of both proven oil and natural gas reserves. Iran is OPEC’s second largest producer and exporter after Saudi Arabia, and in 2008 was the fourth-largest exporter of crude oil globally after Saudi Arabia, Russia, and the United Arab Emirates.¹¹⁶

The Iranian oil and gas sectors, however, have critical structural problems. Despite Tehran’s attempts to diversify the economy, the oil and gas industry is still the critical engine of economic growth, yet the revolutionary government has struggled since the 1979 revolution to maintain oil production above 3.5 million barrels per day—just over one-half of production under the last Shah.¹¹⁷

Subsidized prices and a population that has doubled since the 1979 revolution have created excessive demand. Natural gas accounts for half of Iran’s total domestic energy consumption, while the remaining half is predominately oil consumption.¹¹⁸ A significant portion of what Iran refines is low-value fuel oil, forcing them to rely on imports for higher value-added refined products, such as gasoline, jet fuel and diesel. These energy imports are essential to accommodate the growing public appetite for subsidized fuels, especially gasoline and gas oil.¹¹⁹

¹¹⁴ Katzman, Kenneth, “Iran Sanctions.” Congressional Research Service. December 13, 2010. <http://www.fas.org/sgp/crs/mideast/RS20871.pdf>

¹¹⁵ Fars News, “Senior MP: Iran Capable of Blocking the Strait of Hormuz,” April 26, 2010, <http://english.farsnews.com/newstext.php?nn=8902061586>. See also Tehran Times, “Sayyari: Iran Powerful enough to Close the Hormuz Strait,” November 30, 2008, http://www.tehrantimes.com/Index_view.asp?code=183642; and “IRGC Official: Persian Gulf Security is for All or None,” IRNA, August 1, 2010, <http://www.globalsecurity.org/wmd/library/news/iran/2010/iran-100801-irna01.htm>.

¹¹⁶ Energy Information Agency (EIA) of the US Department of Energy’s country report on Iran as of July 2011: <http://www.eia.gov>.

¹¹⁷ Fareed Mohamedi, “The oil and gas industry,” The Iran Primer, USIP, December 2010. <http://iranprimer.usip.org/resource/oil-and-gas-industry>

¹¹⁸ Ibid

¹¹⁹ Ibid

Iran has already tapped 75 percent of its known reserves, so the likelihood of new, major discoveries is low. Recently discovered sources have allowed Iran to hold oil production relatively steady, and they may even help production levels to grow somewhat in the immediate future, but new sources will not be able to offset natural declines beyond the short-term (see **Figure 4.5**). As a result, Iran will have to rely heavily on proven but undeveloped reserves, which will require major new investments.¹²⁰

Effect of Sanctions on Iran's Energy Sector

High and growing demand for energy, underdeveloped infrastructure, and reliance on foreign investment to develop its oil fields, all make Iran's energy sector highly susceptible to foreign sanctions. There are clear indications that the sanctions—along with more general international isolation—are causing substantial injury to the energy sector. State Department Special Advisor Robert Einhorn testified on July 29, 2010, that about \$50 billion of investment in Iran's energy sector had been deterred by sanctions and other forms of pressure.¹²¹ Some US officials have put the figure closer to \$60 billion in lost investment.¹²²

Multiple companies have been sanctioned under the 2010 Comprehensive Iran Sanctions, Accountability and Divestment Act, the most far-reaching sanctions implemented since the 1979 revolution.¹²³ As a result of these sanctions, several major energy firms have pulled out of some of Iranian projects, declined to make further commitments, or resold their investments to other companies (See **Figure 4.6**). Observers have reported little new investment in Iranian energy fields, with the absence of development particularly damaging at the massive South Pars gas field.¹²⁴

¹²⁰ Ibid

¹²¹ Testimony of Special Advisor Robert Einhorn. House Committee on Oversight and Government Reform. July 29, 2010

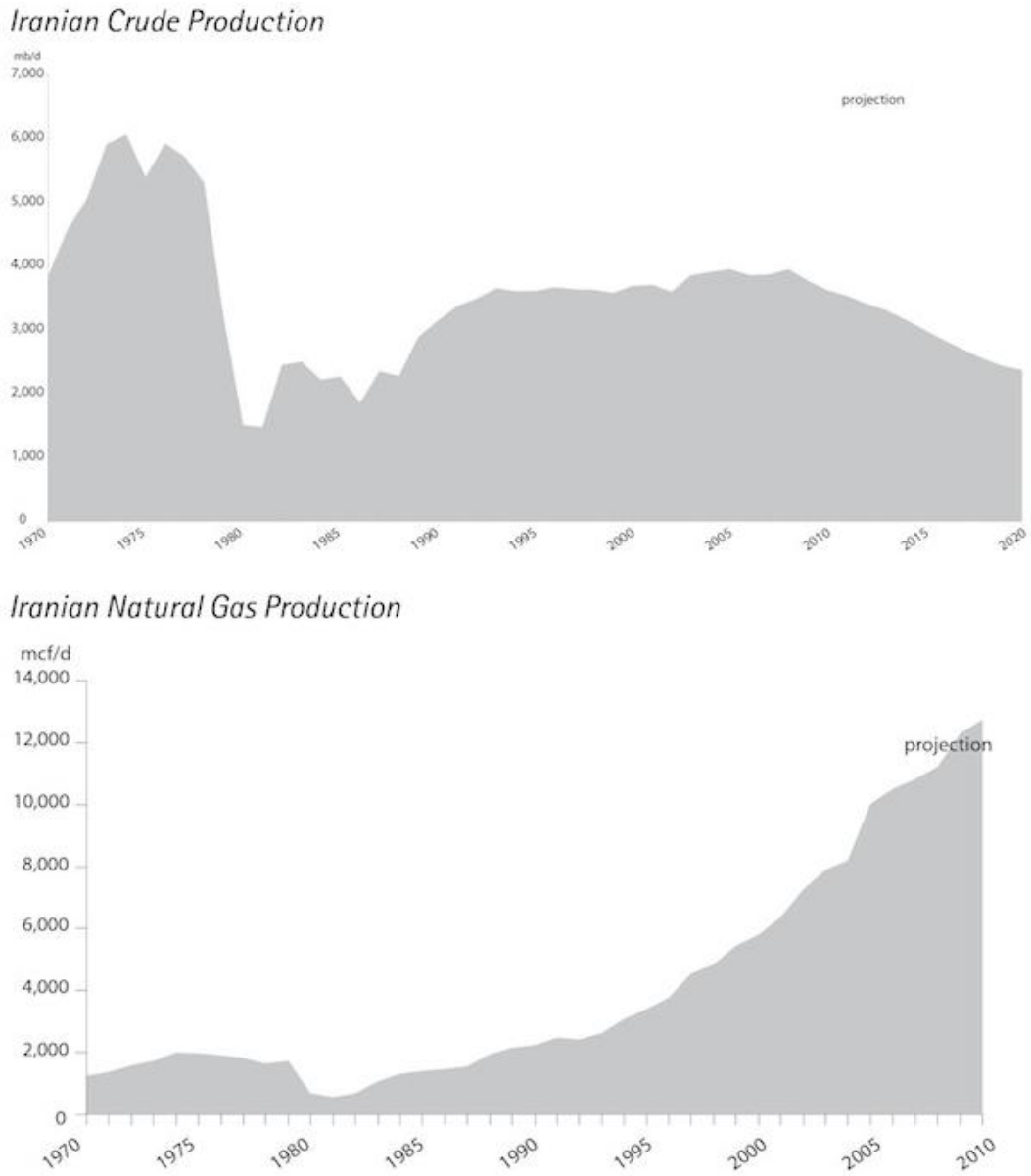
http://democrats.oversight.house.gov/images/stories/Hearings/Committee_on_Oversight/2010/072910_Iran_Sanctions/TESTIMONY-Einhorn.pdf.pdf

¹²² Kenneth Katzman, "Iran Sanctions," CRS, 22 June 2011, p. 56-57

¹²³ http://www.acus.org/new_atlanticist/china-undercuts-sanctions-iran

¹²⁴ Kenneth Katzman, "Iran Sanctions," CRS, 22 June 2011, p. 56-57

Figure 4.5 Iranian Crude and Natural Gas Production 1970-2020



(Source: Energy Information Agency (EIA) of the US Department of Energy's country report on Iran as of July 2011: <http://www.eia.gov>.)

Figure 4.6 Energy Firms Ending Business with Iran 2009-2011

Country	Company	Action
France	Total	Ended investments in Iran
Germany	Linde	Stopped all business
	Schlumberger	Will exit Iran 2013
India	Reliance	Stopped sales of refined products; will not import crude oil from Iran
Italy	Eni spA	Ended investments in Iran
Japan	Inpex Corp.	Exited from the Azadegan oil field
Kuwait	Independent Petroleum Group	Stopped sales of refined products
Malaysia	Petronas	Stopped sales of refined products
Netherlands	Royal Dutch Shell	Ended investments in Iran
Norway	Statoil	Ended investments in Iran
South Korea	GS Engineering & Construction	Cancelled a \$1.2 billion gas processing project in Iran
Spain	Repsol	Abandoned negotiations over development of phases 13 and 14 of the South Pars gas field.
Switzerland	Vitol	Committed to not supply refined petroleum products to Iran
	Glencore	Committed to not supply refined petroleum products to Iran
	Trafigura	Committed to not supply refined petroleum products to Iran
Turkey	Tupras	Cancelled contracts to supply gasoline to Iran
United Kingdom	BP	Stopped supplying jet fuel to Iran Air at Germany's Hamburg airport; halted a BP-NIOC (National Iranian Oil Company) joint venture in the Rhum gas field
International	Trans-Adriatic Pipeline	The pipeline will not be used to transport Iranian gas to Europe

<http://www.state.gov/r/pa/prs/ps/2011/05/164131.htm>

Kenneth Katzman, "Iran Sanctions," CRS, 22 June 2011, p. 56-57

<http://www.state.gov/r/pa/prs/ps/2011/05/164131.htm>

<http://www.bp.com/genericarticle.do?categoryId=2012968&contentId=7066132>

<http://online.wsj.com/article/SB10001424052748704779704575553440314351522.html>

<http://www.foxbusiness.com/markets/markets/2010/10/01/factbox-foreign-companies-stepping-away-iran/>

Possibly as a result of foreign companies ending business and investment, Iran's oil production has fallen to about 3.8 million barrels per day (mbd) from about 4.1 mbd in the mid-2000s, and is projected to fall to about 3.3 mbd by 2015.¹²⁵ Although Iran remains a relatively minor natural gas exporter, some maintain that Iran's gas sector can more than compensate for declining oil exports.¹²⁶ However, given the current political climate, it is highly unlikely that Iran will attract the \$145 billion in new investment by 2018 that Tehran's deputy Oil Minister has said Iran needs in order to develop its gas sector.¹²⁷

Iranian officials have acknowledged the country's vulnerability. For years, record oil prices have insulated Iran from international sanctions and allowed the government to pursue populist policies intended to raise living standards of ordinary Iranians. From 2005, when Ahmadinejad came to power, until 2010, Iran took in nearly \$500 billion in total oil revenue, more than the combined earnings of all previous Iranian governments since the 1979 revolution.¹²⁸ But recent moves by the United States and Saudi Arabia are beginning to test Iran's economic reliance on oil. According to Reza Zandi, an independent oil and gas expert based in Iran, "The Americans and Saudis are using oil as a weapon against us,"¹²⁹ The two countries worked in tandem to lower oil prices after OPEC—with Iran serving as chairman—decided against doing so at its June 8 2011, meeting.¹³⁰ The Obama administration released a portion of the U.S. strategic oil reserve, and Saudi Arabia simultaneously pledged to unilaterally increase production, which caused the price of oil to quickly drop by close to \$8 a barrel—a price that has since rebounded as of July 2011.¹³¹

Iran has encountered serious problems in finding financial institutions willing to handle Iranian payments to energy companies as well as processing foreign payments for its exported oil. Traders and oil company officials said European and Middle Eastern banks have all but stopped issuing letters of credit with Iranian financial institutions, making it very difficult to transact payments for oil sales. Shipping companies are also refusing to send tankers to Iranian oil

¹²⁵ The Wall Street Journal, "Irans falling oil output means less revenue, clout," Spencer Swartz, June 26, 2010. <http://online.wsj.com/article/SB10001424052748704569204575328851816763476.html>

¹²⁶ Kenneth Katzman, "Iran Sanctions," CRS, 22 June 2011.

¹²⁷ <http://www.gao.gov/products/GAO-10-515R>

¹²⁸ Kenneth Katzman, "Iran Sanctions," CRS, 22 June 2011.

¹²⁹ The Washington Post, "In Iran, sanctions aim at shipping lifeline," Thomas Erdbrink, July 10, 2011. http://www.washingtonpost.com/world/national-security/in-iran-sanctions-aim-at-shipping-lifeline/2011/07/08/gIQAyJgw7H_story_1.html

¹³⁰ Kenneth Katzman, "Iran Sanctions," CRS, 22 June 2011.

¹³¹ Kenneth Katzman, "Iran Sanctions," CRS, 22 June 2011.

terminals, and insurers are reluctant to cover cargoes.¹³² This indicates that US strategy is having an effect, and Peter Pham of the Atlantic Council predicts that “At some point or another, Iran’s shrinking pool of partners will conclude that the cost of doing business with it is too high.”¹³³ As Tehran confronts a dwindling number of financial institutions willing to facilitate its commerce, Chinese banks may become the last remaining source of finance for Iranian trade.¹³⁴

Even those foreign banks that are still doing business with Iran are having trouble financing energy deals. Reports have shown that some Iranian officials are growing increasingly angry about the inability of Iran’s largest oil customers to pay in US dollars or Euros, a problem that has contributed to a shortage of hard currency and complicated the central bank’s attempts to bolster the Iranian Rial, which has been sharply devalued as of late.¹³⁵

Indian refiners have faced crude supply disruptions from Iran, because they can no longer process payments since the Reserve Bank of India, in December 2010, barred trade-related payments to the Asian Clearing Union.¹³⁶ By September of 2011, India had resumed payments to Iran by using other financial intermediaries, but it is unclear how long the present arrangement will last.¹³⁷ US financial sanctions have also blocked China from paying at least \$20bn for oil imports, leading Tehran and Beijing to initiate talks about using a barter system to exchange Iranian oil for Chinese goods and services in order to circumvent sanctions.¹³⁸

Despite these hindrances, the recent rise in oil prices amid uncertainty and upheavals in the Middle East could create a political cushion for Iran. Prices are likely to remain high and volatile as long as protests and concerns about supply disruptions continue across the region. The global economy has limits on how long it can tolerate extremely high prices, but Iran will be able to paper over its fundamental economic problems as long as it can move its oil into export markets.

Though many Western companies have fled from Iran, most of these corporations remain interested in exploring profitable Iranian projects in the future, if possible. Over 1,500 firms from 40 countries—including Germany, Austria, Australia, Spain, UK, Russia, Switzerland, Sweden, the Netherlands, Norway, Turkey, France, India, Singapore, Japan, China, Thailand, the UAE, Canada, and Brazil—attended the 16th International Oil, Gas, Refining and Petrochemical event in Tehran in April 2011.¹³⁹

¹³² Reuters, “Iran shipping companies face more heat,” Jonathan Saul, May 24, 2010.
<http://www.reuters.com/article/2011/05/24/iran-shipping-sanctions-idUSLDE74N16T20110524>

¹³³ Ibid

¹³⁴ The Financial Times, “Sanctions put choker on Iran oil exports,” Javier Blas, September 14, 2010.
http://www.ft.com/intl/cms/s/8efd517e-bf5d-11df-965a-00144feab49a,dwp_uuid=c91807cc-1c27-11dd-8bfc-000077b07658,print=yes.html

¹³⁵ The Financial Times, “China and Iran plan oil barter,” Najmeh Bozorgmehr, July 24, 2011.
<http://www.ft.com/intl/cms/s/0/2082e954-b604-11e0-8bed-00144feabdc0.html#axzz1T53j9m88>

¹³⁶ The Wall Street Journal, “India looks beyond Iran for oil,” Rakesh Sharma, July 19, 2011.
http://online.wsj.com/article/SB10001424052702303661904576455290145486746.html?mod=googlenews_wsj

¹³⁷ Bloomberg News, “India clears \$5 billion in overdue oil debt to Iran,” Ladane Nasser, September 4, 2011.
<http://www.bloomberg.com/news/2011-09-04/india-clears-5-billion-in-overdue-oil-debt-to-iran-irna-says.html>

¹³⁸ The Financial Times, “China and Iran plan oil barter,” Najmeh Bozorgmehr, July 24, 2011.
<http://www.ft.com/intl/cms/s/0/2082e954-b604-11e0-8bed-00144feabdc0.html#axzz1TPEoItVf>

¹³⁹ Sadeq Dehqan, “More Foreign Firms At Oil Expo,” Zawya, April 19, 2011.

Gasoline Imports – Iran’s Problem

American and its allies’ sanctions have also constrained Iran’s gasoline production, refining capacity, and imports. Currently, Iranian refineries can only fulfill 58% of local gasoline demand, which itself relies on support in the form of heavy state subsidies.¹⁴⁰ Iran is dependent on gasoline imports for 25% to 35% of its consumption, which costs the government between \$5 and \$7 billion annually.¹⁴¹

These costs are expected to rise as major insurance companies providing coverage for Iranian shipping exit the market. Some firms that have traditionally worked with Iran have recently received US credit guarantees or contracts.¹⁴² Additionally, German insurance giants Munich Re, Allianz, Hannover Re, as well as Britain’s Lloyds of London—Iran’s primary insurer—have all ended their business with Iran as of July 2010.¹⁴³¹⁴⁴ This is all in addition to the numerous international gas suppliers that have discontinued supplying gasoline to Iran.¹⁴⁵ Of the top eleven companies providing gasoline to Iran in 2010, all but three—two owned by China, one by Russia—have since ended their sale of gasoline to the Islamic Republic.¹⁴⁶ This has, by some accounts, resulted in gasoline imports dropping from about 3.5 million barrels per day to roughly 900,000 barrels per day.¹⁴⁷ This nearly 75% reduction is largely the result of international pressure and sanctions. The US Department of State estimates that, all told, Tehran has been denied \$50 to \$60 billion worth of upstream energy revenue.¹⁴⁸¹⁴⁹

Iran’s Effort at Self Sufficiency

In an effort to compensate for its limited ability to import gasoline, Iran has attempted to increase its domestic production, but has encountered some difficulties. Tehran began converting petrochemical plants into refineries and has dedicated \$2.2 billion for accelerated renovations and improvements to existing gasoline refineries. Iranian domestic gasoline, however, contains 10 times more harmful particles than the imported version which, may contribute to increased pollution, smog, and health problems.¹⁵⁰

Iran’s drive to ramp-up domestic production culminated in September of 2010 when Oil Minister Massoud Mirkazemi proclaimed that Iran had become self sufficient and had halted all gasoline

¹⁴⁰ Ebel, Robert, “Geopolitics of the Iranian Nuclear Energy Program,” Center For Strategic and International Studies, March 2010, http://csis.org/files/publication/100312_Ebel_IranNuclear_web.pdf

¹⁴¹ Ibid

¹⁴² GAO-10-967R, “Exporters of Refined Petroleum Products to Iran,” September 3, 2010.

¹⁴³ Kenneth Katzman, “Iran Sanctions,” CRS, 22 June 2011

¹⁴⁴ Kenneth Katzman, “Iran: U.S. Concerns and Policy Responses,” CRS, 9 June 2011

¹⁴⁵ The Financial Times, “Traders cut Iran petrol line,” Javier Blas, September 14, 2010.

¹⁴⁶ Kenneth Katzman, “Iran Sanctions.” Congressional Research Service. December 13, 2010. <http://www.fas.org/sgp/crs/mideast/RS20871.pdf>; Country Analysis Briefs – Iran, Energy Information Agency, January 2010, <http://www.eia.doe.gov/emeu/cabs/Iran/Full.html>; “Factbox: Foreign Companies stepping away from Iran,” Reuters, September 23, 2010, <http://www.reuters.com/article/idUSTRE68M1Q120100923>

¹⁴⁷ Information provided at Foundation for Defense of Democracies conference on Iran. December 9, 2010.

¹⁴⁸ Kenneth Katzman, “Iran Sanctions,” CRS, 22 June 2011. <http://www.fas.org/sgp/crs/mideast/RS20871.pdf>

¹⁴⁹ National Review, “Beyond Sanctions,” Juan Zarate, September 20, 2010

¹⁵⁰ The Wall Street Journal, “Iranians blame smog on West’s sanctions,” Farnaz Fassih, December 11, 2010.

imports¹⁵¹ Their decision to invest in domestic refining was made necessary by Western sanctions, and Tehran appears dedicated to further building their refining capacity in order to minimize the effects of international pressure. In July 2010, Iranian Deputy Oil Minister announced an ambitious new plan to invest \$46 billion in upgrading nine existing refineries and constructing nine brand new facilities.¹⁵²

In addition to boosting production, Iran has also undergone major reforms meant to curb gasoline demand. The Targeted Subsidies Reform made Iran the first major energy producing country to make dramatic cuts to subsidies on energy products and replace them with across the board energy dividend transfers to the population.¹⁵³ A recent report by the IMF observes that the phase-out of gasoline subsidies has already begun to reduce demand:

The increases in prices of energy products, public transport, wheat, and bread adopted on December 19, 2010, are estimated to have removed close to US\$60 billion (about 15 percent of GDP) in annual implicit subsidies to products. At the same time, the redistribution of the revenues arising from the price increases to households as cash transfers has been effective in reducing inequalities, improving living standards, and supporting domestic demand in the economy. The energy price increases are already leading to a decline in excessive domestic energy consumption and related energy waste. While the subsidy reform is expected to result in a transitory slowdown in economic growth and temporary increase in the inflation rate, it should considerably improve Iran's medium term outlook by rationalizing domestic energy use, increasing export revenues, strengthening overall competitiveness, and bringing economic activity in Iran closer to its full potential.¹⁵⁴

The reform package has been controversial within Iran, as the population adjusts to substantially higher prices, a situation that the government had claimed could be avoided. Some reports have concluded that a person living in a 90 square meter apartment who paid \$3-4 a month for gas will now pay around \$97 for the same level of consumption.¹⁵⁵ Some speculate that the increased economic pressure on the middle class could lead to widespread protests against the government, but this has not yet occurred.¹⁵⁶

Circumventing Sanctions

There are serious limits to the international sanctions regime, driven in part by the world's steadily growing need for oil imports. The UN sanctions—partly as a concession to Russia and China—do not place limitations on oil or natural gas transactions. The US has decided, then, to encourage other countries to adopt independent sanctions on the Iranian energy sector. Many European and Asian countries have complied with the expanded sanctions, but as long as the Chinese and Russians continue to implement only the UN sanctions, Iran will continue to have access to large export markets.

¹⁵¹United Press International, "Iran Halts Gasoline Imports," September 20, 2010. http://www.upi.com/Business_News/Energy-Resources/2010/09/20/Iran-halts-gasoline-imports/UPI-47021284993256/

¹⁵² Kenneth Katzman, "Iran Sanctions," CRS, June 22, 2011..

¹⁵³ The wall Street Journal, "Iranians, Given No Choice, Adjust to Soaring Prices," January 20, 2011.

¹⁵⁴ Statement by IMF Article IV Mission to the Islamic Republic of Iran, Press Release no. 11/228, June 13, 2011. <http://www.imf.org/external/np/sec/pr/2011/pr11228.htm>

¹⁵⁵International Affairs Review, "It's all about the price of watermelon: Subsidy reform in Iran," Reza Akbari and Monica Witt, March 28, 2011. <http://www.iar-gwu.org/node/291>

¹⁵⁶ Ibid

China could play a key role in helping Iran circumvent Western energy sanctions. However, as a latecomer to international energy markets, China has found that most of the oil and gas assets in stable and transparent countries are already nationalized or owned by Western oil companies. China has enormous energy needs, however, and has decided to invest in countries where US sanctions forbid American and European companies from doing business, such as the Sudan and Iran.¹⁵⁷ As a result, Iran has become one of the largest suppliers of China's foreign oil, providing 11% of its oil imports in 2009.¹⁵⁸ The fact that 166 Chinese firms attended the 16th International Oil, Gas, Refining and Petrochemical event held in Tehran in April 2011;¹⁵⁹ it seems that this relationship will only grow stronger.

Within limits, the Sino-Iranian energy relationship is mutually beneficial. According to reports, Iran bought half of its gasoline imports in July 2011 from Chinese sellers, amounting to approximately 45,000 barrels per day.¹⁶⁰ This relationship has led China to take a hard stance against any UN sanctions that would affect Iran's energy sector. In March of 2008, a US diplomatic cable reported a conversation between Chinese Arms Control Director General Cheng Jingye and Senate Foreign Relations Committee East Asia specialist Frank Jannuzi. Jimgye warned that "China has made clear its need for energy resources and has previously stated that its cooperation with Iran on energy has nothing to do with the Iran nuclear issue. ... The threat of sanctions against Sinopec [a major Chinese oil company] is a very serious issue. ... Sinopec is very important to China and Cheng 'can't imagine' the consequences if the company is sanctioned."¹⁶¹

Russia and Turkey are also resistant to expanded sanctions for economic reasons.. Iran and Russia have pursued economic partnerships around the export and refining of oil and gas given that they both possess some of the largest reserves in the world.¹⁶²¹⁶³ Moscow, however, controls enough resources and infrastructure to be largely independent of Tehran, so this energy relationship is currently expedient, but not necessarily permanent. Tehran and Ankara have a complicated relationship, but Turkey represents a potentially profitable energy partner for Iran. Turkey has asserted that UN and US sanctions will not prevent its cooperation with Iran in supplying its own and Europe's growing energy needs.¹⁶⁴

The two countries have discussed the construction of a pipeline that would deliver Iranian oil across Turkey to Europe, possibly expanding the scope of Iran's oil markets in Central and Western Europe.¹⁶⁵ The Nabucco Project is a proposed 3,300-km gas pipeline starting at the

¹⁵⁷ Susan Shirk, *China: Fragile Superpower* (New York: Oxford University Press, 2007), 138.

¹⁵⁸ People's Daily Online, "Saudi Arabia, Angola, Iran remain top 3 oil suppliers to China," February 10, 2010.

<http://english.peopledaily.com.cn/90001/90778/90858/90863/6892818.html>

¹⁵⁹ The Financial Times, "Deadlock over Iran oil and gas take toll," Najmeh Bozorgmehr, April 20, 2011.

¹⁶⁰ Reuters, "Iran buys July gasoline from Turkey, Chinese sellers," July 8, 2010.

<http://in.reuters.com/article/2010/07/08/iran-gasoline-imports-idINLDE6671K20100708>

¹⁶¹ "China undercuts sanctions on Iran", Barbara Slavin, Politico, June 2, 2011.

<http://www.politico.com/news/stories/0611/56031.html>

¹⁶² Reuters, "Tehran says Russia eyes gas swaps with Iran," November 1, 2008.

¹⁶³ U.S. Energy Information Administration (EIA) - U.S. Dept. of Energy- U.S. Government, International Petroleum (Oil) Production Report, October, 2008.

¹⁶⁴ IRNA, "Turkish Daily Says UN Fails in Anti-Gas Deal Attempts," September 28, 2007.

¹⁶⁵ Pipeline and Gas Journal, "Pipeline Construction Scoreboard: Projects Planned and Under Construction," September 2008.

Georgian/Turkish (and/or the Iranian/Turkish border) and running to Austria, via Turkey, Bulgaria, Romania and Hungary.¹⁶⁶

EU nations are interested in the Nabucco project because it represents an opportunity for the EU to diversify its gas supply options and reduce its reliance on Russian gas imports, which in 2008 amounted to around 32% of their total demand.¹⁶⁷ The deal remains controversial in Europe as a result of EU sanctions and Nabucco Gas Pipeline International, due to what it calls “the current political situation,” decided not to plan a third pipeline to the Turkish-Iranian border as of 2011.¹⁶⁸ Despite the setback for Iran, Nabucco is actively seeking new gas suppliers, which leaves the door open to future Iranian-Turkish energy cooperation.¹⁶⁹

It has been difficult for Iran to foster partnerships with top foreign firms who can bring real expertise into the development of their energy sector. Due to the international pressure from the US, Europe and Asia that has complicated financial transactions for corporations seeking to do business in Iran, Chinese companies remain their best option. This may not always remain the case, however. Iran still possesses enormous energy resources which will continue to be an attractive investment opportunity. The desire to build a lucrative foothold in Iranian energy may become a consideration for countries that are ambivalent about supporting Western regional influence in the future.

Arms Deals

Arms sales are another way in which Iran and the US are competing in the Middle East. Although it can be argued that this is simply another form of military competition, the US and its allies make use of the Nuclear Non-Proliferation Treaty, the inspection and reporting role of the International Atomic Energy Agency (IAEA), arms control treaties like the CWC, and conventions affecting the transfer of missiles with ranges above 300 kilometers (MTCR) to try and halt Iran’s efforts to acquire nuclear armed missiles and other weapons of mass destruction. Iran has countered by denying and concealing its own activity while calling for a Weapons of Mass Destruction (WMD) free zone in the Middle East, which refocuses attention on Israel. The United States has been pursuing a two-pronged approach to controlling the balance of military power in the region. Resolution 1929 prohibits the sale of “any battle tanks, armored combat vehicles, large caliber artillery systems, combat aircraft, attack helicopters, warships, missiles or missile systems or related materiel, including spare parts.”¹⁷⁰ In addition to banning Iran’s acquisition of nearly all conventional weapons systems, the US has been simultaneously bolstering the weapons capabilities of its Gulf Allies in order to counter-balance Iran.

Between 2005 and 2009, the United States sold nearly \$37 billion worth of weapons and military equipment to Gulf nations, including Saudi Arabia, the United Arab Emirates (UAE), Bahrain,

¹⁶⁶ Parkinson, Joe, “Iran Sets Turkish Pipeline Project,” Wall Street Journal, July 24, 2010,

¹⁶⁷ <http://www.pipelineandgasjournal.com/nabucco-pipeline-project-gas-bridge-europe>

¹⁶⁸ <http://portal.nabucco-pipeline.com/portal/page/portal/en/NewsEdit/8E79E5BF557DCC2DE040A8C0010178CA>

¹⁶⁹ Dow Jones Newswire, “RWE executive sees good progress on Nabucco gas supply deal,” Jan Hromadko, September 11, 2011. <http://online.wsj.com/article/BT-CO-20110913-704599.html>

¹⁷⁰ UN Department of Public Information, “Security Council Imposes New Sanctions on Iran,” June 9, 2010. <http://www.un.org/News/Press/docs/2010/sc9948.doc.htm>

Qatar, Oman, and Kuwait.¹⁷¹ In 2010, the United States negotiated a \$20 billion arms package with a number of Gulf States as part of the Gulf Security Dialogue. Later that year, Saudi Arabia alone finalized an enormous arms deal with the United States that will total more than \$60 billion over the next 10 years.¹⁷²

Iran has responded by turning to Russia and China in order to purchase military hardware. Since 1992, Russia has sold Iran hundreds of major weapons systems, including T-72 tanks, Tor-M1 missile systems, and a handful of combat aircraft like the MiG-29 and SU-24.¹⁷³¹⁷⁴ The two countries signed a nearly \$1 billion deal in 2007 to supply Iran with five batteries of long-range S-300 air-defense missiles, which are similar to the US Patriot system.¹⁷⁵ The S-300 system was a high priority for Tehran because it would increase their ability to defend their nuclear installations from attack.

The Russians, however, have sought to expand their ties with the West and have begun to respond to international pressure to isolate Tehran. Russia delayed its delivery of the S-300 system in 2009 amid the “diplomatic reset” with the United States and, after voting in favor of the latest round of UN sanctions in 2010, officially canceled the project and barred all future sale of sophisticated weapons to Iran.¹⁷⁶ Russian Foreign Minister Sergei Lavrov said “there are fundamental principles linked to the sale that we never, in accordance with our legislation, and according to our international obligations, take any actions that will lead to the destabilization of certain regions.”¹⁷⁷

Supplying weapons to Iran was beginning to hinder Russia’s ability to upgrade its domestic military capability and purchase top-of-the-line arms from Western countries. Russia closed a deal in 2009 to purchase unmanned aerial vehicles from Israel,¹⁷⁸ and reached a \$1.52 billion deal in 2011 for Paris to supply them with two Mistral class helicopter carriers. These were Moscow's first major foreign arms purchases in the two decades since the fall of the Soviet Union.¹⁷⁹ Moscow currently values its relationship with its Western arms suppliers more than its weapons trade with Iran, which the US should expect will result in Russia’s continued implementation of UN sanctions. The Russian Ministry of Defense is also hoping that displaying

¹⁷¹ Christian Science Monitor, “How Arms Deals are Shaping the Mideast,” Kristen Chick, October 6, 2010, <http://www.csmonitor.com/World/Middle-East/2010/1006/How-arms-deals-are-shaping-the-Mideast>

¹⁷² Christian Science Monitor, “Blockbuster US Arms Sale to Saudi Arabia: Will it Deter Iran?” Anne Mulrine, September 21, 2010. <http://www.csmonitor.com/USA/Military/2010/0921/Blockbuster-US-arms-sale-to-Saudi-Arabia-Will-it-deter-Iran>

¹⁷³ Lionel Beehner, “Russia-Iran Arms Trade,” Council on Foreign Relations, November 1, 2006. <http://www.cfr.org/iran/russia-iran-arms-trade/p11869>

¹⁷⁴ The Times UK, “Russia Ratchets up US tensions with arms sales to Iran and Venezuela,” Tony Halpin, September 19, 2008. <http://www.timesonline.co.uk/tol/news/world/europe/article4781027.ece>

¹⁷⁵ Christian Science Monitor, “Why Russia is cutting off major arms sales to Iran,” Fred Weir, September 23, 2010. <http://www.csmonitor.com/World/Europe/2010/0923/Why-Russia-is-cutting-off-major-arms-sales-to-Iran>

¹⁷⁶ Christian Science Monitor, “Why Russia is Cutting Off Major Arms Sales to Iran,” Fred Weir, September 23, 2010

¹⁷⁷ The New York Times, “Russia Links Iran Arms Sale to Regional Tensions,” February 24, 2010.

¹⁷⁸ United Press International, “Russia, Israel sign spy drone deal,” April 10, 2009. http://www.upi.com/Top_News/2009/04/10/Russia-Israel-sign-spy-drone-deal/UPI-52871239374884/

¹⁷⁹ Reuters, “Russia, France sign Mistral helicopter deal,” Alexei Anischuk, June 17, 2011. <http://www.reuters.com/article/2011/06/17/russia-france-mistral-idUSLDE75G1K520110617>

restraint with Tehran will convince Israel not to resume weapon sales to Georgia, which it discontinued, at Moscow's request, after the outbreak of the 2008 Russia-Georgia conflict.¹⁸⁰

China, on the other hand, has been a consistent supplier of conventional weapons to Iran, although it has largely complied with the Missile Technology control Regime and limits on the export of nuclear-related technology. Dr. Bates Gill wrote in 1998 that “with the exception of Pakistan and possibly North Korea, China's arms trade with Iran has been more quantitatively and qualitatively comprehensive and sustained than that with any other country.”¹⁸¹ China made over \$3 billion in arms transfer agreements with Iran from 1980-1987, supplied \$400 million worth of weapons from 1993-1996, \$600 million from 1997-2000, and \$100 million between 2002 and 2005.¹⁸² As talks stalled with Russia over delivery of the S-300 missile system, Iran reportedly looked to China, which had recently put a replica of the S-300 on the export market.¹⁸³

The US has consistently opposed Chinese military assistance to Iran. Speaking with CNN in 2007, Under Secretary of State for Political Affairs Nicolas Burns pointedly stated that the US has “irrefutable evidence” that the Iranians were transferring arms to militants in “Lebanon, in Gaza, in Afghanistan, and in Iraq” in direct contravention of UN Security Council Resolution 1747, which bans Iranian arms exports.¹⁸⁴ John McConnell, the former Director of National Intelligence, testified to Congress that the PRC's arms sales in the Middle East were “destabilizing” and “a threat” to US forces.¹⁸⁵

Faced with sanctions tightening its arms procurement abilities, Iran has begun investing in a nascent domestic defense industry. When the S-300 sale fell through, the Iranian military announced that it would upgrade existing S-200 systems to such a degree that they would be superior to the modern, Russian built technology.¹⁸⁶

General Seyed Reza Taheri boasted—with limited credibility and realism—that,

The air defense systems' operational speed and range have been promoted thanks to the attempts made by our country's experts. We are witnessing a jump in this field when considering the previous models.”¹⁸⁷
Iran may be able to develop a more robust arms development capability in the medium to long term, but

¹⁸⁰ Mark Katz, “Iran and Russia,” The Iran Primer, USIP, December 2010.

<http://iranprimer.usip.org/resource/iran-and-russia>

¹⁸¹ Bates Gill, “Chinese Arms Exports to Iran,” Middle East Review of International Affairs, Vol. 2, No. 2 (May 1998), 57.

¹⁸² Richard F. Grimmett, “Conventional Arms Transfers to Developing Nations, 1993-2000,” Congressional Research Service, August 2001, 28

¹⁸³ Iranian Press TV, “Russia ‘Losing to China on Iran S-300 Quest,’” May 9, 2009.
<http://edition.presstv.ir/detail/94183.html>

¹⁸⁴ CNN, “Iran arming Taliban, US claims,” June 13, 2007.
<http://edition.cnn.com/2007/WORLD/asiapcf/06/13/iran.taliban/index.html>

¹⁸⁵ Shirley Kan, “US-China Counter-Terrorism Cooperation: Issues for US Policy,” Congressional Research Service, July 15, 2010. 36.

¹⁸⁶ Fars News Agency, “Iran to develop new generation of S-200 air-defense missiles,” November 14, 2010.
<http://english.farsnews.com/newstext.php?nn=8908231551>

¹⁸⁷ Ibid

their domestic capability in the near future is fairly limited. Iranian weapons developers focus primarily on modifying older technology and are therefore still heavily reliant on weapons imports.¹⁸⁸

Theodore Karasik, a regional affairs expert at the Dubai-based Institute for Near East and Gulf Military Analysis, has said, “compared with five or 10 years ago, Iran seems to have made significant strides. They probably aren’t fully self-sufficient for defense needs, but they are moving in that direction.”¹⁸⁹

Regime Change

The Islamic Republic is keenly aware of the West’s past interventions in Iran. It not only fears such actions, but aggressively uses Iran’s history and Iranian nationalist fears of outside intervention to try to win domestic support. Moreover, much of Iran’s current foreign policy is influenced by the desire to limit what Iranian clerics and officials view as corrosive foreign influence.

There is no question that the US would like to see a different regime in Iran, and that the US and Britain have actively intervened in Iranian affairs in the past. US and British involvement in Iranian politics stretches back to the World War II occupation of Iran and the CIA and British-backed overthrow of democratically elected Prime Minister Mosaddegh in 1953.

In general, however, the US has relied largely on information campaigns and the support of Iranian exiles since the fall of the Shah. It has little practical leverage over internal events in Iran, and any direct support of Iranian dissidents would inevitably leak, discredit them, and do more harm than good.

Over the last decade, the US has pursued a variety of different approaches to regime change in an attempt to influence domestic politics in Iran. The George W. Bush Administration took a strong stance in favor of regime change. In his 2006 State of the Union address, President Bush expressed his belief that “our nation hopes one day to be the closest of friends with a free and democratic Iran.”¹⁹⁰

Some accounts suggest that President Bush went as far as to authorize covert operations to destabilize the regime, involving assistance to some of the ethnic-based armed groups in Iran.¹⁹¹ These reports reflect both Iranian claims that the US has backed unrest among Iranian Baluchis in the East, and the impact of the Iran Freedom Support Act which the US the Congress enacted in 2006. This legislation authorized funding for the active promotion of democracy in Iran, and was debated in ways which gave the impression that the US might use the funds to directly seek the overthrow of the Iranian regime.¹⁹²

¹⁸⁸ Associated Press, “Iran showcases homegrown arms in war games,” Ali Akbar Dareini, July 5, 2011. <http://news.yahoo.com/iran-showcases-homegrown-arms-war-games-102403551.html>

¹⁸⁹ Ibid

¹⁹⁰ Kenneth Katzman, “Iran: U.S. Concerns and Policy Responses,” Congressional Research Service, June 9, 2011, p. 59.

¹⁹¹ ABC News, “Bush Authorizes New Covert Action Against Iran,” Brian Ross & Richard Esposito, May 22, 2007. http://blogs.abcnews.com/theblotter/2007/05/bush_authorizes.html.

¹⁹² HR 6198, “Iran Freedom Support Act,” The Library of Congress, September 30, 2006. <http://www.gpo.gov/fdsys/pkg/BILLS-109hr6198rds/pdf/BILLS-109hr6198rds.pdf>

In practice, however, there was far more rhetoric than reality. There is no meaningful evidence that the US actively backed Baluchi or any other form of Iranian separatism, or actively intervened internally in Iranian politics. The Bush Administration clearly realized the damage that any such US action could do to Iranian dissidents and moderates if—as was inevitable—it became public.

President Obama initially took on a more moderate public approach regarding regime change. The first major public manifestation of this vision for came in March 2009 during a message to the Iranian people on the occasion of Nowruz. He stated that the United States “is now committed to diplomacy that addresses the full range of issues before us, and to pursuing constructive ties among the United States, Iran, and the international community.”¹⁹³

He also referred to the country as “The Islamic Republic of Iran,” a formulation that appeared to some to suggest that the US had accepted the Islamic revolution and was no longer seeking regime change.¹⁹⁴ In concert with that approach, Obama Administration officials initially withheld overt support for hard-line approaches, such as military action, although no options were explicitly “taken off the table.”¹⁹⁵

The tone in Washington changed, however, when Iran failed to respond in any way that offered the US confidence the regime would become more moderate, and as nuclear talks stalled and Iran harshly put down protests in Tehran following its 2009 election. The US was cautious in reacting, again because of the fear that the Iranian regime would use US criticism to discredit moderates and demands for greater freedom and legitimacy.

It soon became apparent, however, that US restraint would not help. In December of 2009, President Obama addressed the protests in Iran and declared: “Along with all free nations, the United States stands with those who seek their universal rights.”¹⁹⁶ Obama’s 2011 Nowruz statement reflected this changing diplomatic approach, expressing criticism of the government in Tehran and support for insurgent pro-democracy movements. The address was widely noted for its open support of Iranian protesters, its condemnation of abuses against specific, named dissidents, and absence of any renewed overture to Iran’s leaders.¹⁹⁷ Obama Administration officials did, however, stop short of publically calling for regime change.¹⁹⁸

As the Arab Spring turns into autumn, the White House appears content to hope democracy movements in Iran surge, organically while they continue pressing for expanded sanctions and

¹⁹³ The Washington Post, “Obama’s Message to Iran,” Thomas Erdbrink, March 21, 2009. <http://www.washingtonpost.com/wp-dyn/content/article/2009/03/20/AR2009032000398.html>

¹⁹⁴ Ibid

¹⁹⁵ Kenneth Katzman, “Iran: U.S. Concerns and Policy Responses,” Congressional Research Service, June 9, 2011, p. 53-54.

¹⁹⁶ White House, Office of the Press Secretary. “Statement by the President on the Attempted Attack on Christmas Day and Recent Violence in Iran.” December 28, 2009.

¹⁹⁷ The White House Blog, “President Obama’s Nowruz Message,” Nikki Sutton, March 20, 2011. <http://www.whitehouse.gov/blog/2011/03/20/president-ob-ama-s-nowruz-message>

¹⁹⁸ Kenneth Katzman, “Iran: U.S. Concerns and Policy Responses,” Congressional Research Service, June 9, 2011, p. 59.

allow Russia to take the lead on a new round of nuclear talks.¹⁹⁹ Once again, they did so in large part because they realize that such a call for change would be used to discredit the Iranian opposition.

The Congress again took a stronger position. In 2010, legislation was introduced in the Senate that called for the United States to: “fully and publicly support efforts made by the people of Iran to oppose and remove the regime [...] from power in Iran; and to promote the emergence of a freely elected, open, and democratic government to replace the political system of the Islamic Republic of Iran.”²⁰⁰

US Initiatives at Information Campaigns Over the Last Decade

The US has launched a series of initiatives over the last decade to promote opposition parties in Iran. Radio Farda (“tomorrow,” in Farsi) began in October 1998 as a project of Radio Free Europe/Radio Liberty, in partnership with the Voice of America (VOA). The VOA also established a Persian language service to Iran (VOA Persian Service) in July 2003.²⁰¹ In July 2007, it was renamed Persian News Network (PNN), encompassing radio (1 hour a day or original programming); television (7 hours a day of original or acquired programming, rebroadcast throughout a 24 hour period); and Internet.²⁰²

Since 2010, the Obama Administration has broadened the scope of its democracy promotion programs. In addition to the traditional efforts to fund journalists, human rights activists, visit programs, the Administrations has sought to work directly with individuals inside Iran who are organized around apolitical issues such as health care, the environment, and science.²⁰³ Washington has begun to “tweet” in Farsi as well as Arabic, and the Obama administration has made efforts to help the Iranian opposition circumvent government attempts to monitor or cut off communications.²⁰⁴ According to the New York Times, the Administration has initiated a global effort to deploy “shadow” Internet and mobile phone systems that dissidents can use to undermine repressive governments that seek to silence them by censoring or shutting down telecommunications networks.²⁰⁵ Similarly, the State Department is financing the creation of stealth wireless networks that would enable activists to communicate outside the reach of governments; a devise with clear implications for any Iranian opposition party.²⁰⁶

¹⁹⁹ The New York Times, “Easing Stance, Iran Offers Inspectors ‘Supervision’ of Nuclear Program,” David Sanger, September 5, 2011. <http://www.nytimes.com/2011/09/06/world/middleeast/06iran.html>

²⁰⁰ Iran Democratic Transition Act of 2010, S3008, Library of Congress. <http://thomas.loc.gov/cgi-bin/thomas>
http://www.opencongress.org/bill/111-s3008/news_blogs

²⁰¹ Kenneth Katzman, “Iran: U.S. Concerns and Policy Responses,” Congressional Research Service, June 9, 2011, p. 62.

²⁰² Ibid

²⁰³ Wall Street Journal, “U.S. Shifts Its Strategy Toward Iran’s Dissidents,” June 11, 2010.

²⁰⁴ Kenneth Katzman, “Iran: U.S. Concerns and Policy Responses,” Congressional Research Service, June 9, 2011, p. 59.

²⁰⁵ The New York Times, “U.S. underwrites internet detour around censors,” James Glanz and John Markoff, June 12, 2011. <http://www.nytimes.com/2011/06/12/world/12internet.html?pagewanted=all>

²⁰⁶ Ibid

It is unclear that the US efforts are making progress; although they almost certainly help keep Iranian moderates and opponents of the regime informed and give them some outside support. There is still hope in Washington that the uprisings that took place in the spring and summer of 2011 will take hold in Iran. The evidence to date, however, indicates that the government in Tehran has successfully consolidated power after widespread uprisings in 2009 and a brief spat of protests in early 2011.

Expanded sanctions have impacted the Iranian economy, and significant minorities within Iran appear disaffected by the government in Tehran, but no broad-based revolutionary movement has materialized.²⁰⁷ The US should continue to position itself on the side of democracy and human rights, and while this will enable American policy makers to more effectively engage with newly liberated Arab populations, they should not expect that it will usher in a the timely downfall of the Iranian government.

Implications for the Future

Current US policy towards Iran has been based on several assumptions: that sanctions and the offer of incentives are the best peaceful tool to push Iran towards a reversal of its policy on uranium enrichment, that Iran must cease enrichment, or bring it under full IAEA inspection and control, as a precondition for other negotiations, and that small confidence-building steps may be able to buy time and lead to eventual movement in other areas.²⁰⁸ The US has also kept up contingency planning for military intervention to keep Iran from becoming a nuclear power. It should be noted, however, that accounts of US force deployments in preparation for such action have consistently proven false. They have also, almost universally, focused on carrier deployments rather than the stealth systems, cruise missiles, and mix of other assets that would actually be involved in a credible attack.

US-led sanctions on Iran's financial and commercial systems have been designed to constrain and complicate Tehran's commercial relationships and consolidate international opposition to their illicit financial activities. This has created a self-reinforcing cycle. The more that Iranian entities attempt to avoid American sanctions, the worse their reputation becomes, thereby increasing the pressure on public and private financial bodies to disassociate themselves from Iran.²⁰⁹ This is especially true for governments, "since the reputation of their financial sectors often depends on such cooperation against illicit activity."²¹⁰

It is increasingly doubtful, however, that sanctions and negotiations will change Iran's behavior, that sanctions can be expanded to cripple Iran's energy sectors, or that arms control options will become anything other than an extension of diplomatic warfare. The growing body of data on the economic impact of existing sanctions shows they do have a serious effect. There are few indications, however, that the sanction regime has resulted in an Iranian shift in policy or

²⁰⁷ Kenneth Katzman, "Iran: U.S. Concerns and Policy Responses," Congressional Research Service, June 9, 2011,

²⁰⁸ Foreign Affairs, "The War Over Containing Iran," Dima Adamsky, et al, March/April 2011.
<http://www.foreignaffairs.com/articles/67474/dima-adamsky-karim-sadjadpour-and-diane-de-gramont-shahram-chubi/the-war-over-containing-iran?page=show>

²⁰⁹ US Treasury Department Office of Public Affairs, "Treasury Under Secretary for Terrorism and Financial Intelligence Stuart Levey Remarks at the Center for Strategic and International Studies," September 20, 2010.
http://csis.org/files/attachments/100920_Levey_CSIS_Remarks.pdf

²¹⁰ Ibid

perceptions of its nuclear program. American and UN sanctions have not produced a demonstrable change in Tehran's commitment to continue to pursue a nuclear program.²¹¹

A more serious sanctions policy would require far more draconian measures along with sustained, widespread cooperation on an international level. World energy markets remain too fragile, and Iran is a good enough market and investment option, to make any such action extremely unlikely before an Iranian nuclear test – if then.

Russia and China has a strong incentive to keep playing the “sanction game” even if Iran moves forward with nuclear forces. Tehran can offer robust economic opportunities to nations that skirt or weaken sanctions because of their sizable market, enormous energy reserves, and the commercial void created by the sanction compliance of Western corporations. The US should continue to appeal to a strategic sense of national interest in both Beijing and China. Ideological appeals are unlikely to be successful, but the US can be more effective by increasing the costs of Iranian collaboration as well as the benefits of sanction compliance.

Historically, many of Iran's most dramatic political upheavals have been marked by foreign invasions, meddling, or covert influence. From the Persian perspective, this most recent confrontation with the outside world is only the latest round of a long-running campaign. This is a view that breeds suspicion and distrust, and the struggle against foreign influence still defines the terms of Iran's standoff with the world. This has been reinforced in the last decade by the presence of US ground troops on both of its flanks in Iraq and Afghanistan as well as being categorized as part of an “Axis of Evil.” When the outside world demands cooperation with UN agencies, inspections, and sanctions, many Iranians feel that they are being asked to acquiesce to being co-opted and coerced into accepting Western institutions, morals, and policies. Given this framework of suspicion and historical distrust, competition between the United States and Iran may be approaching a zero-sum game. It is unclear how both sides can overcome the current impasse over Iran's nuclear ambitions in order to achieve a grand bargain that could address a host of other strategic issues.²¹²

It seems likely that all of the leading factions within the current Iranian regime have invested too much—in Iran's nuclear and missile programs; its military buildup in the Gulf; and its efforts to create security relations with Iraq, Syria, and Lebanon—to renounce enrichment altogether, or suspend it indefinitely.

Public opinion polls differ, but most indicate such efforts are popular. Iranians see developing a nuclear program, whether intended for weapons or for energy, as crucial to self-sufficiency and regional credibility; as well as being a natural response to perceived foreign aggression. The regime's opposition to any real nuclear bargain is driven as much by self-preservation as ideology. Iran is certainly cognizant that Gaddafi's nuclear bargain made him functionally helpless to respond to his NATO-assisted ouster, and Khamenei is acutely aware that any rapprochement with the United States that reintegrated Iran back into the global political and

²¹¹Kenneth Katzman, “Iran Sanctions.” Congressional Research Service. December 13, 2010.

<http://www.fas.org/sgp/crs/mideast/RS20871.pdf>

²¹²Foreign Affairs, “The War Over Containing Iran,” Dima Adamsky, et al, March/April 2011.

<http://www.foreignaffairs.com/articles/67474/dima-adamsky-karim-sadjadpour-and-diane-de-gramont-shahram-chubi/the-war-over-containing-iran?page=show>

economic order would likely spur unpredictable changes that could significantly endanger his hold on power.

The US should not abandon sanctions and negotiations, if only to add credibility to its warnings about Iran's nuclear programs. It should carefully encourage Iranians to seek a different, more free, and more moderate regime – although the Bush and Obama Administration have almost certainly been correct in assuming that US efforts at regime change should be extremely cautious, focus on information campaigns, and avoid any form of direct intervention that could discredit Iran's own dissidents, moderates, and critics of the regime.

It must continue to play the arms control game as well, although a weapons of mass destruction free zone has virtually no chance of being negotiated in a meaningful form for five reasons:

- Iran's nuclear and missile programs,
- Israel's need to maintain nuclear and missile forces,
- The lack of any real prospects for a full Arab-Israeli peace,
- Arab missile, chemical and biological weapons programs and growing interests in nuclear programs, and,
- The steadily growing difficulty in creating convincing verification and inspection regimes.

This means these aspects of US-Iranian competition must continue to play out in their current ways, barring a major shift to a more moderate and democratic regime in Tehran. As Iran advances its nuclear program and long-range missile capabilities, however, the United States must increasingly consider how to structure some kind of collective Gulf, Iraqi, and Turkish approach to containing or deterring Iran—which inevitably means creating military options to attack Iran's nuclear and missile programs, suppress its air and missile defenses, halt Iranian efforts to threaten traffic through the Gulf, and limit its ability to use irregular or proxy warfare. It must also do a far better and more convincing job than it did in Iraq of persuading the world it has exhausted every peaceful option, and that the Iranian threat is real. Preventing Israel from military action that at best would confront the US with an unpredictable trigger force, rather than a lasting suppression of Iran's nuclear and missile options, will be another critical priority. So will US efforts to create a meaningful strategic partnership with Iraq, and to show the Arab Gulf states and Turkey that the US will maintain a major military presence to help ensure their security, offer arms sales and support to build up their own deterrent and defense against Iran, and to provide a missile defense and other options as an alternative to Arab efforts to develop their own nuclear forces.

There are no political or diplomatic options that can force Iran to change. At the same time, one should not ignore the reality that Iran's internal politics offer real hope that a more moderate and pragmatic regime may eventually emerge. Patience, sanctions, and diplomacy do offer hope of buying time in allowing such change. Military deterrence and containment can be partners to such efforts, but it is obvious that any use of force presents major risks that could not only lead to far more dangerous forms of US and Iranian competition, but create an open-ended set of new risks to global energy supplies and the global economy.