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ECONOMIC SANCTIONS AGAINST IRAN  
AND THEIR EFFECTIVENESS

*The aim of the article is to examine the causes for international sanctions imposition on the Islamic Republic of Iran and the mechanism of their functioning. The paper considers the international legal responsibility, collective (European Union and the Security Council of the United Nations) and individual (the US and other countries) sanctions mechanism against Iran. Specific types of sanctions and their impact on Iranian economy are analyzed. The authors explore the effectiveness of sanctions in successfully fulfilling their aim, i.e. to change Iran's stance on its nuclear program, and their subsequent removal by the international community.*

*Keywords:* economic sanctions; Iran; embargo; nuclear program.

*JEL classification:* F51; K33.

Станіслав Мраз, Людмила Ліпкова, Катаріна Брочкова  
ЕКОНОМІЧНІ САНКЦІЇ ПРОТИ ІРАНУ ТА ЇХ ЕФЕКТИВНІСТЬ

*У статті проаналізовано причини накладання міжнародних санкцій на Ісламську Республіку Іран, а також механізм функціонування даних санкцій. Досліджено питання міжнародної юридичної відповідальності за санкції – колективної (на рівні ЄС та Ради Безпеки ООН) та окремих країн (США та інших). Проаналізовано типи санкцій та їх вплив на економіку країни. Ефективність санкцій розглянуто в контексті досягнення їх мети щодо згортання ядерної програми Ірану та нещодавньої відмови міжнародної спільноти від санкцій.*

*Ключові слова:* економічні санкції; Іран; ембарго; ядерна програма.

*Табл. 2. Літ. 26.*

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ЭКОНОМИЧЕСКИЕ САНКЦИИ ПРОТИВ ИРАНА  
И ИХ ЭФФЕКТИВНОСТЬ

*В статье проанализированы причина наложения международных санкций на Исламскую Республику Иран, а также механизм функционирования данных санкций. Исследован вопрос международной юридической ответственности на санкции – коллективной (на уровне ЕС и Совета Безопасности ООН) и отдельных стран (США и других). Проанализированы типы санкций и их влияние на экономику страны. Эффективность санкций рассмотрена в контексте достижения их целей по сворачиванию ядерной программы Ирана и недавнего отказа международного сообщества от санкций.*

*Ключевые слова:* экономические санкции; Иран; эмбарго; ядерная программа.

**Introduction.** Economic sanctions are the old instrument of foreign policy, which is used to achieve political objectives. Currently international sanctions include a broad range of measures discriminating a particular state that violates international law. Adoption of sanctions is usually treated only when all bilateral and multilateral diplomatic negotiations decisions, which would put the situation into line with international law, are exhausted. Sanctions may take economic and non-economic forms. Economic sanctions cover a wide range of restrictions which adversely affect not only the economy of a sanctioned country but also the countries imposing sanctions. Non-

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economic sanctions also have far-reaching social impacts. As for non-economic sanctions we can recall the ban on taking part in cultural or sports events (participation in the Olympics or at various international tournaments) in the sanctioned state (e.g., in the Soviet Union, South Africa, USA etc.). Among them are also limiting access to information or to a certain kind of education for citizens of a sanctioned state or refusal to grant visas etc.

In economic and legal literature, we can find numerous definitions of economic sanctions. Economic sanction is taken by a country or an organization against the economy of another country, such as refusing to trade with, in order to force it to obey a law or a set of rules (Cambridge Business English Dictionary, 2015).

According to the Council on Foreign Relations, economic sanctions are defined as "withdrawal from the usual commercial or financial relations in order to achieve the objectives of foreign and security policy. They may apply to all commercial and other relations with that country, or to suspend only certain trade or cooperation relations with groups of people or individuals" (Masters, 2015).

**Latest research on the issue.** Issues of economic sanctions are elaborated in the works of many authors. Among them we can single out in particular, J. Masters (2015), A. Marossi and M. Basset (2015), P. Gelling (2012), L. Kapustina et al. (2015) and K. Rogoff (2015). Namely, K. Rogoff (2015) states that in the past only one third of economic sanctions was effective, while others didn't demonstrate the expected effect.

#### **Discussion.**

**Reasons for introduction of economic sanctions against Iran.** Iran began building its nuclear program in the 1950s. Although the country has vast oil reserves that could meet its energy needs, it has decided to build a nuclear power plant that produces enriched uranium used also for atomic bombs production. US officials in 2007 declared that Iran has scientific, technical and industrial capacity to produce nuclear weapons, if it chooses so (Arms Control Association, 2014). Iranian officials insisted that nuclear capacity is used for peaceful purposes only and ownership of reactors and centrifuges is their inalienable right and thus they will continue to develop its nuclear research (Nuclear Threat Initiative, 2014).

Iran is a signatory to the Treaty of Non Proliferation of Nuclear Weapons and was charged with the production of enriched uranium and with non-compliance to this agreement. Suspicion of non-compliance with international treaties on non-proliferation of nuclear weapons by Iran was more than 10 years before the adoption of sanctions under negotiation in many international fora.

The UN Security Council, the European Union, the United States and Russia have tried to resolve the disagreements through diplomatic channels. Given that Iran's attitude has not led to expected results, the introduction of sanctions should have led to a renunciation of dual-use nuclear program.

**Types of international sanctions against Iran.** Sanctions against Iran had a collective nature and were declared by the UN Security Council and the European Union, some countries have also imposed individual sanctions on Iran (USA, Japan etc.).

UN Security Council in December 2006 adopted Resolution 1737 introducing sanctions against Iran. Sanctions included "travel restrictions, traffic sanctions, arms embargoes, commodities boycotts and the freezing of funds, financial assets and eco-

conomic resources owned or controlled by persons or entities designated in the annex to this resolution as well as persons or entities that are in various ways involved in this program" (Resolution 1737, 2006). In June 2010, the UN Security Council decided on the extension of sanctions against Iran. It adopted resolution 1929, directed against investments in the nuclear field (Resolution 1929, 2010).

The European Union has implemented these sanctions and enlarged the list of sanctioned individuals and companies by Regulation 423/2007. The European Union has imposed oil embargo on Iran as part of broader sanctions on 01/23/2012 (Euractiv.sk, 2012). EU Members were forbidden to enter into new contracts and new commitments with Iran, to provide financial support or to build new tankers for Iran (Council regulation No. 267/2012, 2012). In this way they tried to restrict resources to finance the country's nuclear program (Giumelli and Ivan, 2013).

Sanctions imposed on Iran relate to several areas: economic, travel, scientific-technical and military. The role of economic sanctions is to destabilize the economic and social situation in the country. As part of sanctions it is prohibited to export to Iran spare parts for cars and aircraft. Economic sanctions included financial sanctions directed against Iranian individuals and entities involved in varying degrees in the nuclear program. There were also sanctions against Iranian financial institutions (Resolution 1929, 2010). In March 2012, 19 Iranian banks were disconnected from the international banking system SWIFT to break their communications and transactions with other banks in the world (Council regulation No. 267/2012, 2012). Within financial sanctions, Iran had frozen financial assets in foreign banks totaling to 100 bln USD (Garver, 2015).

The UN Security Council and the European Union has compiled a detailed list of technologies and materials prohibited for export to Iran because they could be used for the processing of uranium (Resolution 1737, 2006). The sanctions in this area were supposed to lead to a slowdown in the development of its nuclear program and to speed up the dialogue between representatives of Iran and International Atomic Energy Agency. In the military field, sanctions had the form of embargo on arms exports, accessories to them, as well as other military materials.

Travel restrictions formed another group of sanctions. They were aimed at slowing down the progress of Iranian nuclear program. Iranian students did not have access to education in foreign universities in the courses on nuclear physics (Resolution 1737, 2006).

***Analysis of the effectiveness of economic sanctions against Iran.*** The declared objective of collective sanctions (UN SC and the European Union) against Iran was to force official representatives to enter the negotiations on limiting nuclear program. The declared aim for sanctions was to hit the broad masses of population as least as possible. In that case, however, the effect would be substantially smaller (IAEA, 2015).

Limited access to technology and barriers for private firms decreased the performance of Iranian economy, as reflected in the decline of GDP, which took place after the adoption of oil embargo by the European Union in 2012. In 2013, absolute decline in GDP compared to 2012 was 7.8% and in 2014, further decrease was 4.3% (Iran, 2015). Economic instability in Iran also caused a decline in foreign investments. In 2008, a decrease of FDI inflows recorded enormous 44%; in 2009 – further 11%. Since 2010 FDI inflow began to gradually increase (Iran, 2015).

Table 1. **Basic economic indicators (GDP, investment, unemployment) of Iran** (Iran, 2015)

|      | GDP p.c. (nominal) | GDP p.c. (PPP) | FDI Imports    | Unemployment rate |
|------|--------------------|----------------|----------------|-------------------|
|      | <i>USD</i>         |                | <i>ths USD</i> | <i>%</i>          |
| 2006 | 2737.11            | 15126.57       | 4200.0         | 12.091            |
| 2007 | 2864.78            | 15902.87       | 3412.6         | 10.548            |
| 2008 | 3011.8             | 15955.02       | 1914.1         | 10.449            |
| 2009 | 3021.68            | 16123.02       | 1709.6         | 11.912            |
| 2010 | 3053.49            | 16979.03       | 1791.4         | 13.479            |
| 2011 | 3215.72            | 17424.56       | 2717.8         | 12.3              |
| 2012 | 3299.99            | 16067.64       | 3773.8         | 12.2              |
| 2013 | 3043.0             | 15551.69       | 4322.1         | 10.439            |
| 2014 | 2945.29            | 15572.83       | 4488.6         | 10.6              |

Table 2. **Basic economic indicators (trade and inflation) of Iran** (Iran, 2015)

|      | Import total   | Export total  | Petroleum oils, oils from bitumen materials, crude | Inflation, average consumer prices |
|------|----------------|---------------|--|------------------------------------|
|      | <i>ths USD</i> |               |  | <i>% change</i>                    |
| 2006 | 40685758.84    | 77012000      | 59358755.896                                       | 11.888                             |
| 2007 | 44894469.216   | 88733000      | 69186762.672                                       | 18.444                             |
| 2008 | 57370646.272   | 113668000     | 89195655.494                                       | 25.316                             |
| 2009 | 50754576.906   | 78830000      | 59003110.543                                       | 10.788                             |
| 2010 | 65404000       | 101316000     | 66216344.472                                       | 12.365                             |
| 2011 | 68319000       | 130543999.999 | 81903172.097                                       | 21.492                             |
| 2012 | 63155251.749   | 102852848.484 | 65694216.287                                       | 30.531                             |
| 2013 | 54203869.819   | 81589999.999  | 47933346.656                                       | 34.727                             |
| 2014 | 56416272.668   | 87820509.09   | 51660909.881                                       | 15.549                             |

Economic situation and limited state budget revenues have led to rising inflation, which reached the highest value in 2012 and 2013, more than 30% (IMF, 2015), and led to a two-thirds drop in the value of Iranian rial in 2011, and prices of goods such as bread, milk, vegetables or vegetable oil increased by 47% (Giumelli and, 2013). Difficulties in sending and receiving funds that were caused by disconnecting Iranian banks from the international banking system SWIFT, worsened the conditions for trade in all economic sectors and slowed down the inflow of certain goods into the country, such as rice or medications (Giumelli and Ivan, 2013). Limited involvement of Iran in the international division of labor worsened the living standards of population measured in GDP p.c.

Targeted sanctions has gradually become complex and increased negative impact on the entire Iranian society.

The imposition of economic sanctions undermined Iran's foreign trade. The largest decline in import was in 2009 with a 12% decrease as compared to 2008. Further decrease was recorded in 2012 as compared to the previous year and in 2013 – by another 15%. The volume of Iranian exports also decreased and fell in 2009 as compared to 2008 by 31%, in 2012 by 22% and in 2013 by another 21%, mainly due to oil embargo. In July 2012, bans on imports of oil from Iran to the European Union Member States became the core of sanctions. While in 2011 the EU was the largest

trading partner of Iran, after the introduction of oil embargo, the EU has moved to the fourth place, because Iranian imports to the EU decreased significantly.

The significant decline was recorded in exports of oil and oil products, the volume of which fell in 2009 by 34%, in 2012 by 20% and in 2013 by further 28% compared to the previous year (UNCTAD, 2015). Export of oil until 2011 accounted for 80% of the total export earnings and accounted for 50–60% of state budget revenues. In 2012, however, exports of crude oil dropped to the level of 1986 (Giumelli and Ivan, 2013). Despite the fact that measures such as oil embargo are effective in the short term, the longer in force – the more often appear the efforts of various economic subjects seeking alternatives. China, India, South Korea or Japan have looked for the ways to circumvent sanctions imposed by the EU and the USA. After the imposition of sanctions, China became Iran's largest trading partner (Marcus, 2010).

Not all trade companies took the same approach to sanctions. Some of them seek to circumvent them. Sanctions created obstacles for the target country, but in the long term they could not completely prevent the influx of goods and technologies to the country.

Quantification of costs associated with the imposition of sanctions on Iran is quite complicated. Part of costs can be determined by comparing the international trade of Iran before and after sanctions imposition. Another part of costs are opportunity costs.

The second option would be to impose complex sanctions on Iran and not only against specific entities. This option, however, would not be acceptable to the broad masses of the population, as humanitarian consequences would be too high. Possible humanitarian consequences were addressed in 2012 by the UN Secretary General Ban Ki-moon saying that economic sanctions on Iran had a significant impact on the population. Especially damaging consequences for the population were, according to him, rising inflation, unemployment, and lack of necessary goods and medications (Dehghan, 2012). The first result achieved by the sanctions was the expression of will of Iran to negotiate with the International Atomic Energy Agency. The sanctioning countries have tried to achieve senior officials of Iran to reconsider its nuclear ambitions and suspend nuclear program. Restrictive measures managed to slow down the development of nuclear program. Diplomatic negotiations have led to success. An agreement between the Islamic Republic of Iran and the International Atomic Energy Agency to drastically restrict its nuclear program was signed.

***The removal of sanctions on Iran.*** In this case we can state that the slowdown in the nuclear program was its positive repercussion. Economic sanctions by 2013 did not prompt Iran cut its nuclear program. Although the sanctions were directed against specific entities, nonetheless they had significant negative consequences for the population, which suffered from a lack of food and medications. After the presidential elections of 2013 when a rather moderate President Hassan Rouhani was elected, diplomatic negotiations on Iran's nuclear program intensified. The sanctions were eased after the start of these talks. In April 2015, the framework for an agreement leading to a settlement of the dispute between Iran and international community on its nuclear program has been established.

Joint Comprehensive Plan of Action (JCPOA) between Iran and the P5+1 (USA, Russia, China, Germany, France and the United Kingdom) (TA3, 2015) from

July 14, 2015 in Vienna is one of the results of pressure in the form of economic sanctions on Iran and policy of President Hassan Rouhani. Iran has committed to restrict for 10–15 years its nuclear program, to dismantle of centrifuges for uranium enrichment, to a decline of enriched uranium from 12 tons to several tens of kilograms and to seal the reactor in Arak, which produces enriched plutonium (IAEA, 2015). Production of enriched plutonium will be checked by inspectors from the International Atomic Energy Agency. Iran may continue with developing nuclear facilities and procedures for obtaining fissile material. The European Union and the UN Security Council has undertaken not to impose new sanctions against Iran in case of Iran's compliance with the JCPOA provisions (Joint Comprehensive Plan of Action, 2015).

Iran concluded an agreement on limiting its nuclear program in exchange for the removal of restrictive measures by the European Union and the United States. Trade in oil, aircrafts, spare parts for automobiles and aircrafts will be reopened. Also frozen funds of Iranian legal and natural persons abroad will be released.

Unless Iran violates the provisions of the restrictions on its nuclear program, sanctions will be introduced again. According to the US President Barack Obama, Iran will convince the world about the peaceful use of its nuclear program if it is interrupted for at least 10 years (Katzman and Kerr, 2016). Sanctions on Iran have been removed on January 17, 2016.

**Conclusion.** Economic sanctions have fulfilled their purpose, although in the case of Iran, there was almost 10 years' time period until some progress was achieved. It should be emphasized that a change in Iran's approach to its nuclear program and violations of international treaty was triggered on the one hand by the economic sanctions, on the other hand by the positive role of the newly elected president H. Rouhani. The abolition of economic sanctions on Iran will create a new balance in the world economy. Access of Iranian oil supplies to the world market will increase the overall supply oil, therefore, one can expect further decrease in oil prices. Iran in the near future will increase its supply to the world market by 500,000 barrels per day, and this amount will gradually increase up to 1.5 mln barrels per day (Aljazeera, 2016). Other suppliers to the world market, like the US and Russian companies, will be obviously affected. Iran will be allowed access to foreign credit and new technologies. It is expected that with the removal of economic sanctions, the economic growth of Iran will increase to 8% per annum (Kottasova, 2016).

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