

# European Sanctions against Iran: Impacts and Effectiveness

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## Abstract

The European sanctions regime against Iran came into force in 2012 and soon turned into a yardstick for evaluation of the European Union foreign policy. The Europeans demonstrated their determination in playing a more decisive role in the Middle East through impositions of sanctions on Iran. The present article aims to study the impact of sanctions on the European Union as well as its impacts on Iran. The main questions are about the effectiveness and impacts of sanctions and the future scenarios after their lifting. The hypothesis is that imposition of sanctions is quite consequential for both appliers of sanctions (European countries) and their subject (Iran). To study the consequences of sanctions, impacts have to be distinguished from effectiveness. For the appliers it is the impacts that should be studied. What concerns Iran as the subject of sanctions is their effectiveness. The costs of imposed sanctions on Iran have been significant for both Iran and European Union. This article approaches the issue of Iran's sanctions from the International Regimes theory perspective.

**Keywords:** European Union, sanctions, effectiveness and impacts of sanctions, human rights, energy, foreign policy.

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## **Introduction**

With the imposition of international sanctions on Iran that changed the direction of events, it was the European Union and not the United States that played a key role. When Iran's oil embargo started in November 2011, Britain was the only European country abiding US policies concerning Iran. However after the attack on the British embassy in Tehran and freeze in bilateral relations, the other European countries also joined to support sanctions as a punitive measure against Iran. The report of the International Atomic Energy Agency against Iran's nuclear activities added increased European resentment of Iran and contributed to the decision of unifying Europe against its nuclear program. Other important factors were the United States pressures, the fear of an Israeli-Iranian war, fear of a regional instability and above all Europe's desire to demonstrate its role-playing in matters related to international security.

When the sanctions were about to be imposed there were varying positions among the European countries about how and when to implement them. Britain and France were staunch supporters of sanctions. Germany tended to look at the sanctions as the last resort. Italy was supportive of negotiations with Iran and diplomatic solutions, mostly due to its extensive economic, political and historical ties with Iran as well as its dependence to Iran's energy. Greece was unable to distinguish its economic interests in Iran from political stances; not only because Iran was its third supplier of oil but also due to the special price and payment arrangement Iran was offering. Later on, implementation of sanctions proved the

destructive impacts of sanctions on the fragile Greek economy. Despite all these differences, the European countries reached an agreement over imposition of sanctions. In a glance, the European sanctions can be summarized as follows:

**Table 1: The European Sanctions against Iran**

Oil	Other petroleum products	Petrochemical products	Financial
The ban on import of oil and freezing of the related bank activities	The ban on import of all petroleum products	Ban on import of petrochemical products	1- Ban on all financial interactions with Iran 2- The prohibition of world financial institutions from cooperation with Sepah, Saderat, Melli and Mellat banks 3- Sanctioning Central Bank of Iran

(Source: the author)

The main objective of sanctions is to disrupt the diplomatic and economic relations of a given country with international partners. The local and regional sanctions enforced by some countries against a certain country usually leave limited impacts. It is because the sanctioned country can expand its ties with third countries as an alternative to those that have initiated sanctions. However, in case of international sanctions, the margin of maneuver for the sanctioned country is very narrow and the possibility to find alternative partners with affordable costs shrinks significantly.

The primary question of the research is that what were the impacts of sanctions on Europe? Were the sanctions effective and advanced their expected objectives? And what will happen after lifting of those sanctions? In response I hypothesize that the economic sanctions act as a double-edged sword that not only wounded Iran as the target country, but also made negative impacts on the appliers in short run. When it comes to the impact of sanctions on the European countries, effectiveness of sanctions is concerned and when it comes to Iran, the efficiency t should be studied.

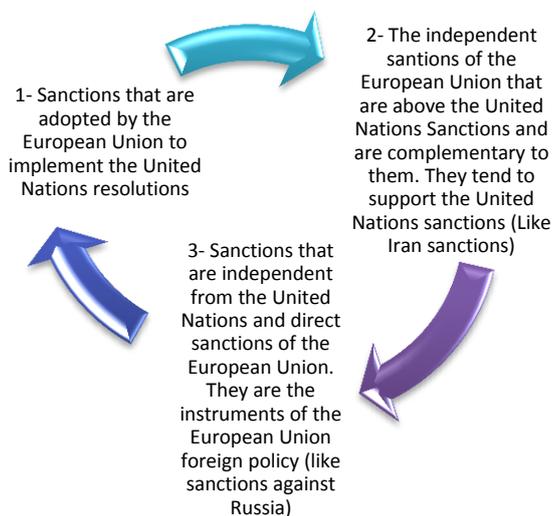


To test the hypothesis the paper applies the theory of International Regimes. International regimes are a collection of norms, rules and decision-making processes; around them the actors form their expectation on a given subject–area. Here the sanctions have been the forming factor. Donald Puchala and Raymond Hopkins believe that there is a regime in any subject of international relations. Whenever a behavior is conducted by some orders or rules there should be some principles, norms and instructions that explain or interpret it. They believe that the regimes enable the analysts to interpret international developments. International regimes give scholars a tool to understand and make sense of the actors' actions and determine their legitimacy or lawlessness. They also provide an instrument to understand whether and how conflicts are resolvable (Stephen and Simmon, 1987, 493). The theorists of International Regimes refer to a behavioral pattern that fall between the independent and fundamental variables (power and national interests) and foreign behaviors. These regimes influence power relations and national interests and consequently direct the final behaviors of states.

### **I- Sanctions and Impact on the European Union**

There are few studies about the impact of sanctions on the sanctioning states. This is also true about the literature about Iran's sanctions. Iran has had the experience of three decades of sanctions by the United States and has managed to deal with them. The country has not been engaged in the international economy and that gives it some sort of immunity from being folded by the tides of sanctions. Therefore the sanctions could not reach their expected aims and the costs for the sanctioning have been more than the gains. The costs were not only economic; it involved huge political and human rights–related consequences ((Dreyer & Luengo Cabrera, 2015: 2). In the European Union foreign policy there are three types of sanctions and with different mechanisms of implementation. Iran's sanctions can be classified in the second type.

Figure 1- Types of the European Union Sanctions



(Biersteker, 2015: 4)

The sanctions that the European Union imposed on Iran are the most comprehensive and ambitious sanctions ever initiated by EU. The sanctions are so extensive that cannot be compared to those applied against the Belorussia, Burma and Libya. Iran's reciprocal action of sanctioning the European Union shocked the oil market and increased global oil prices. The issue of sanctioning Iran raised when the European countries were facing financial crisis, thus there were differences and disputes among the European Union member states over the matter. Moreover, the International Monetary Fund also issued warnings over the EU economic conditions even before the sanctions were adopted. The statistics indicate that with implementation of sanctions, Germany paid the greatest prices among the European countries. Although Iran was hit by the impacts of sanctions, the cost of sanctioning for the European countries was significant in terms of expenses, energy and time. The most important of ones include losing the sales and the financial services market.

**The political impacts of sanctioning Iran:** The European Union sanctions were economic instruments to serve political



purposes. The Europeans benefited from sanctioning Iran in a number of ways. The EU sanctions came into force after US and the United Nations sanctions and therefore had the legitimacy of international support. That guaranteed a European alliance against Iran (Iran Project, 2012: 30). Moreover the Europeans did not burn all the bridges behind them and left some open channels for dialogue; this would allow restoration of constructive relations in future. In short run, however, sanctions were not effective because the final objective of the sanctions was to change Iran's behavior. On the contrary, not only the sanctions did not change its course of action but also imposition of sanctions even entrenched the position of hardliners inside Iran who did not opt for any kind of reconciliation. To use this instrument, the Europeans only needed more balance in Iranian internal politics. Such balance was restored after the presidential elections in Iran in 2013 and consequently it changed the governmental approaches.

Europeans pursued another political objective from sanctioning Iran. They started to warn other developing countries about going nuclear and make an example out of Iran for all other countries who sought to acquire nuclear technology. From this perspective, not only they failed but they also made Iran a symbol for continuing its nuclear program despite pressures. In the course of sanctions, there occurred a rift between the western and non-western countries. Despite the European sanctions, countries like Russia, China, South Korea, India and even Turkey continued their political and economic relations with Iran, following the logic of economic pragmatism. Even before that, the West had to pay heavy prices to convince China and Russia to cooperate in the Security Council (Iran Project, 2012: 42). Russia and China were against damaging Iran's economy and the well-being of ordinary people. Although the European sanctions were not meant to harm ordinary people, at the end they left an irreparable and long-lasting damage.

The other cost of sanctions' imposition that the Europeans had

to pay and still are paying was that, Iran's obsession to deal with the consequences of the sanctions, led to spread of radicalism and violence throughout the Middle East and paved the grounds for emergence of fundamentalist groups like ISIS. This directly affected Europe's security. From another perspective, Europe lost Iran as the only independent country in the region. All the Persian Gulf countries as well as central Asian countries are allies of the United States and this leaves Europe with limited capacity to influence regional developments. Before sanctions, Iran was the only independent country that the Europeans could cooperate with as the first trading partners and this had opened a path for Europe to the Middle Eastern affairs. However, the sanctions robbed Europe off this opportunity.

According to Thucydides there are three reasons for begging a war: dignity, fear and interest (cited in Esfandiary, 2013: 6). Sanctions were engineered to instill fear and to gain interests; however they harmed Iranian dignity. It might be argued that the most damaging consequences of sanctions were on the dignity of Iranians. Consequently the sanctions nurtured anti- Europe sentiments among Iranians because they blamed sanctions as the main reason for the bad economic conditions of the country and this had led to creation of a negative image of Europe in the Iranian mindset. A part of disagreements over opening communication channels between the two parties stems from this mere reality. In other words, Europe increased its costs of return to Iran by imposing sanctions and the sanctions worsened the atmosphere of bilateral relations.

Although by uniting the positions of the European countries over a certain issue, sanctions were regarded as a sign of success for the European Union, nevertheless they inflicted damages to the crisis-hit economies of European countries. Upon termination of Europe's energy purchase from Iran, third countries filled the vacuum. On the whole, although sanctions could drag Iran to the negotiations table, they were unsuccessful in achieving the desired political purposes.



**The economic impacts of sanctions:** Since sanctions increased the costs of interaction with Iran they were detrimental to the interests of European companies working with Iran. The European member states bore twice losses than the United States from sanctioning Iran. In the meantime, Germany paid the biggest price estimated to stand at 73-23/1 billion dollars (EUCNC, 2012). Italy with 42/8-13/6 billion dollars and France with 10/9-34/2 were the second and the third European countries that lost interests from trade cooperation with Iran. The costs of sanctions for other European countries have stood between 145 and 458 million dollars (Leslie, Marashi and Parsi, 2014: 3).

Iran took measures to bypass sanctions. These measures included, among other things, replacing China and Russia with Europe and expanding ties with Turkey, India and Pakistan. Sanctions revealed some structural weaknesses in the European Union including those in border control and the European Court of Justice (Rogoff, 2015). A part of economic costs of sanctions for Europe goes back to the reduction in exports and the resulting increase in unemployment rate. Iran was an important trade partner of Europe and imported significantly from European countries. There were even potential for expansion of such ties. But imposition of sanctions disrupted the soaring trend in trade interactions and gave Europe's rivals like China the opportunity to take Europe's place in Iranian market. In the 1990, more than 50 percent of Iranian imports were industrial goods, 30 percent belonged to the capital goods and the remaining 20 percent were consumer goods (Bahar, 2015). Iran was regarded as an important importer of machineries and metal industries in addition to transportation tools and chemical and herbal stuff from Europe. From 2000 onwards, with more industrialization of Iranian economy the import of raw and intermediary materials soared. The total value of imports in the initial years of the 21st century was around 14.3 billion dollars and up until the end of 2000s exceeded 60 billion dollars and stood at 77 billion dollars just before start of sanctions.

After the sanctions, all these numbers dropped to 58-52 billion dollars (EC, 2015: 5).

Total trade between Iran and Europe declined from 27.7 billion euros in 2011 to 12.8 billion euros in 2012 and the imports from Iran decreased from 12.2 billion euros in 2011 to 5.5 billion euros in 2012. Although this reduction is significant, it only represented 1 percent of Europe's total imports and therefore did not have important impact on the European Union. In the meantime, the southern Europe countries noticed the impact of such reduction more deeply (Giumelli, 2013, 26).

In the first half of the 2000s, the European countries of Germany, France, Italy and Greece were the most important trade partners for Iran. Iran conducted more than one third of its imports and exports with these countries. After 2005 and with Iran adopting the policy of pivoting to the East this amount of trade was reduced significantly. In 2011, China together with India and South Korea, were Iran's most important trade partners and the share of Italy, Greece and Spain had dropped in Iran's foreign trade. Intensification of sanctions was behind such shift in Iran's trade direction towards China, India, Turkey and United Arab Emirates (Eghtesad – e- Irani, 2015).

The European private companies were the subject of most losses. For instance the two car-manufactures of Peugeot and Renault bore huge losses as a result of sanctions and the obligation to leave Iranian market. In case of Peugeot, the costs are estimated to be around 800 million euros. Renault had also lost 512 million of revenues after leaving Iranian market. While Peugeot–Citroen was selling half a million cars annually to Iranians, subsequent to implementation of EU sanctions it lost its second largest market (Diplomacy Irani, 2015).

**Energy:** The embargo on purchasing Iranian oil was also costly for many European countries. Apart from Greece, two other countries of Italy and Spain received a considerable proportion of



their oil demands from Iran: around 10 percent (EC (a), 2015). Before sanctions, Italy had invested 3 billion dollars in Iran and was expecting to receive half of its interest by 2014. Soon after the oil embargo by the European Union in July 2012, Iran declared that it has stopped selling oil to the European countries. This created rifts among the European countries; some European countries that were not prepared for the sudden disruption of Iranian oil flow expressed discontent with this EU decision. Technically speaking, since refineries are built to process special oils, those that were adapted to the Iranian oil were facing serious challenges to continue their works (Pirdaye and Padam, 2015, p. 11). Europe sought to find alternatives and went after the Saudi, the Persian Gulf, and Russian and Libyan oil. Saudi Arabia and Russia were more inclined to sell oil to East Asia due to better Asian payment terms. Libyan oil refineries were not fully operational and even if they were, their products were not suitable for reprocessing in European refineries. As a result Europe found itself in a difficult situation to build new infrastructures to meet its oil demands (Faucon, Rzhnov and Said, 2011). In other words, substituting Iranian oil became more costly than expected. The oil processing industries of Europe that were adapted to Iranian light oil were reengineered to be able to process the heavy oil of the Arab states. The damaging effects of Iran's oil embargo were more noticeable in southern European countries where consumed more than 68 percent of Iranian oil production before the sanctions. Iranian oil made for 30 percent of Greece oil imports, 14 percent of Italy's and 12 Percent of Spain's (Giumelli, 2013: 24).

Greece had a dire situation in 2011 concerning its financial crisis and the banks reused to finance its oil purchases. Iran, however, expressed readiness to sell it oil with very favorable terms. This led to a sudden increase in the share of Iranian oil of the total Greek oil consumption, from 16 percent in 2010 to 50 percent in 2011 (Giumelli, 2013L 29). After the inception of sanctions in 2012, Greece shifted its source of oil from Iran to Russia, Saudi Arabia and

Libya with the assistance of the European countries. Italy also replaced Iran with Libya. Despite this, the companies endured heavy costs. In one instance alone, the Shell Oil Company lost 2.3 billion dollars as a result of suspending oil purchase from Iran (Reuters (a), 2013).

As a result, the European refineries were the first losers of Iran's sanctions and with implementation of the Iranian sanctions around 70 of them were teetering on the brink of bankruptcy (Faucon, Rzhnov and Said, 2011). Therefore as a result of these sanctions Iran replaced Europe with East Asia as the destination of its oil. Currently Iran exports two third of its oil to Asia: one third is sent to China and the rest is distributed between Japan, South Korea and India. Although all international oil companies benefited from the increase in oil prices as a result of Iran sanctions, many other economic sectors like airlines, oil refineries, car manufacturing and retail sales of Europe were negatively impacted.

As a result of the imposition of sanctions China bought the Iranian oil far below the market and re-exported it to Europe. The Chinese oil companies took charge of huge Iranian oil and gas projects and turned into the largest customers of Iranian oil (Downs, 2012). This however was not a fair trade for Iran since Iran could not receive the oil money and had to import Chinese consuming goods instead. Russia was also the other winner of Iranian sanctions. The sanctions led to a soar in energy prices and this suited well for Russian's interests as a major world energy supplier. Russia is the largest oil producer in the world with a daily production of 10 million barrels, from that 7 million is exported.

**Human Rights:** From an international law perspective sanctions are an international response to the illegal or unacceptable behaviors of states. They are used as means for punishment to support the norms that the global society holds invaluable and the international law supports (Beigzadeh, 2000, 18). International Law Commission defines legitimate sanctions as reactive measures by an



international organization in response to violation of an international commitment that is seriously consequential for the international community. From a European perspective, Iran's nuclear program and not observing some western norms by the Islamic Republic of Iran has led to imposition of sanctions on Iran. If the charter of the International Atomic Energy Agency is taken as the standard of action, Iran's insistence on preserving its nuclear program cannot be regarded as violation of international law. Then the European sanctions do not have the legal acceptability.

Some believe that smart sanctions are more effective than comprehensive sanctions. There is however, huge discrepancy over the human rights dimensions of the smart sanctions and the mechanisms of their implementation. As it turns out that this kind of sanctions are considered to be accordance with the human rights standards (Sajjadpour and Vakili, 2015, 57). In general, sanctions are blind and not only they target the political leaders but they also damage the ordinary people. In case of Iran, the government sought to minimize the impact of sanctions on the population through paying subsidies to those segments of society with the least purchasing power. Many of the small or medium size businesses went bankrupt (Esfaniary, 2013: 2). Since sanctions hit the basic needs of the Iranian people they can be regarded as violation of human rights. This puts the European Union in an awkward position due to the union's insistence on human rights. European Union has founded its ethical and political foundations on human rights claiming that observing human rights standards is a prerequisite for those states that bid for accession. Europeans even commit themselves to the human rights observation when it comes to economic interactions with other actors. Most military interventions of the European countries after the Second World War have been justified by humanitarian intervention. However, the imposed sanctions violated the so-called European sponsored human rights and many interpreted it as a European compromise of its fundamental values. The

sanctions gave rise to the anti-European sentiments in Iran. Before the sanctions, unlike the United States that was subject of Iranian's hatred and resentments, Europe was in a safe sideline despite its massive support of Iraq during the eight years of Iran–Iraq war. This positive outlook, however, changed after imposing the sanctions. The most important case of human rights violation occurred in health sector where Iran found it increasingly difficult to import, finance, and transport medicine to the country (Cheraghi, 2013: 1).

Before sanctions Iran's national pharmaceutical industry played a major role in providing essential medicines to the Iranian patients. In recent years the country's national industry was also able to locally manufacture several lifesaving biopharmaceuticals. However, following the sanctions Iran's pharmaceutical market faced profound difficulties for importing both medical products and active pharmaceutical ingredient (API) for providing necessary medicines needed for patients. On the other hand, as a result of sanctions and reduction of the country's international incomes, Iranian national currency (Rial) also experienced drastic devaluation against international currencies. These caused both substantial price increase and shortage of the medicines in Iran's pharmaceutical market. This obviously imposed unnecessary pain and suffering on Iranian patients and their families (Cheraghi, 2013, p. 2).

Economical restrictions imposed by EU on Iranian banking system and flow of the money pushed Iranian national contract fractionation program to the verge of total collapse. These restrictions on importation of plasma derived medicines (PDM) into Iran also created a dreadful condition for patients in need of such medicines including hemophilia and primary immunodeficiency disorders patients who needed the medicines for their survival. Prices increased unavoidably and more importantly shortage of these medicines in the market drastically compromised treatment of the patients. One practical contingency plan could shift Iran Blood Transfusion Organization (IBTO) to search for partners in non-European



countries. However, due to limited number of qualified plasma fractionators in non-European countries e.g. Asian and South America, seeking the required medicine in the East could not be fruitful (Cheraghi, 2013: 3). Sanctions also led to expansion of illnesses in an indirect way.

Cancer is the third mortality factor after cardiovascular diseases and unintentional accidents. Iran is currently hit by the tsunami of cancer. One reason is the European sanctions implemented since 2012. Sanctions increased the costs for medicine import to the country. Some radiotherapy pieces were sanctioned because of the usage overlap with military devices. Such restrictions made the patients to wait in long waiting lists and some even died before receiving treatment. Healthcare system had to import low-quality Chinese devices. Later, it was founded that those medicines were harmful for patients because of their voltage fluctuations, so using these devices became obsolete. Consequently, considering the inflation caused by sanctions, just a few well-off patients who were still able to afford costs of going abroad traveled to countries like Turkey or Malaysia for radiotherapy treatment, and other patients were deprived of treatment, waiting queues of the remaining devices (IIPP, 2013: 3).

Those with Asthma and other respiratory diseases also fell victim to the European sanctions. Iran had to import those medicines from India. These medicines had a very low quality and were not distributed evenly among those who needed them. As a result the death rate of lung related diseases soared and turned into a human crisis. Due to the adverse economic conditions left after the European sanctions the routine life was disturbed and the rate of anxiety and nervous tensions increased. As the medical community observed, this led to the Multiple Sclerosis (MS) surge among Iranians from 2012 onwards.

That placed Iran among the first ten countries with MS prevalence. Currently around 50 thousand of patients that suffer from

MS live in Iran. Significantly those who suffer from MS get use to receiving particular medicines produced by specific producers. The interruption of medicine export to Iran from Europe left those under European medicine treatments in harm and the imported Turkish medicine were ineffective (Al-monitor, 2013). The scarce European medicines were, if accessible, were very expensive unaffordable for most patients. For instance the price of the German made Methaferone soared from 900 thousand rials to 16 million rials. In another case, the Rebif reached to 600 thousand rials from the initial 450 thousand rials (Nature, 2013). All in all, as a result of sanctions 1296 medicines were not imported to Iranian drugstores, many of them vital to the patients.

The other inhuman aspect of the European sanctions was reflected in the increase of food prices. From 2012 onwards, food prices increased rapidly. Chicken price for example was multiplied. The country lost a great amount of its currency savings (around 80 million dollars) in 2012 (Reuters (b), 2012). The most important damage to the food distribution network of Iran was from sanctioning Iran's banking system. The devaluation of Iranian rial had a direct impact on the food price and was itself a reason behind reduction of food stuff imports (George and Saul, 2012).

## II- The Effectiveness of Sanctioning Iran

Sanctions are simple to understand. The sanctioned country bears some costs as result of the restrictions imposed by the sanctioning country(s). The founding logic is quite clear: the cutting trade links would lead to change in behavior. Some observers question the effectiveness of the post-cold war sanctions and generally there are great differences over whether sanctions can reach their ultimate aims or not (Lopwz, Cortright, 1989: 404). The effectiveness of sanctions has been under study in relation to the desired purpose. For instance the ban on selling arms to Yugoslavia did not make Serbs to discontinue the conflict. In Iraq, the increase in pressuring people not



did not translated in to change in Iraqi regime's behavior but enabled it more to subvert people (Mosaffa, 2007).

**Table 2: Effectiveness of Sanctions Based on the Desired Objectives**

The objective	Cases of success	Cases of failure	The ratio of success
Changing regime's behavior	17	34	33
destabilization	11	10	52
Disrupting military adventurism	6	12	33
Military paralyzing	2	8	20
Other major policy changes	5	15	25
All cases	41	79	34

(Hadipire and Padam, 2015, 4)

History proves that sanctions reach their desired goals when: the costs of sanctions on the sanctioned country is large enough to decrease 2 percent of its gross domestic product; there are large differences in the capabilities of the sanctioning and sanctioned countries; a significant amount of trade of the sanctioned country is dependent on the sanctioning country (over 25 percent); the sanctions are implemented in full force and with the cooperation of those trade partners that may disrupt the sanctioning process; and, the cost of sanction for the implementer country is low (Lopez and Cortright, 1989: 68).

Among the above-mentioned only the second and third cases apply to Iran. Therefore it can be said that according to the first criteria the costs of sanctions have been below 2 percent for Iran. With respect to the fourth criteria, Iran could replace the European partners with the Asian ones. Finally the fifth criteria also points to the shortcomings of the European policy of sanctioning Iran as the time of sanctions implementation on Iran concurred with economic crisis in Europe. This led to frictions among European countries and raised the sense of the insecurity for the whole Europe over Iran's sanctions.

The most important criticism over sanctions is that they are

ineffective and sometimes counter-productive. They rarely lead to change of behavior and their negative consequences go far beyond their desired objectives. In case of Iran, sanctions did not make Iran abandon its nuclear program and they only harmed Iran's economy and led to violation of human rights.

**The Political Effectiveness of Sanctions:** Sanctions were ineffective politically. As previously mentioned, the effectiveness of sanctions is measured by the purposes they are to serve. If the European Union was after stopping Iran's nuclear program and changing the Islamic Republic's behavior they failed to do so. As the reports of the International Atomic Energy Agency indicate, before implementation of sanctions Iran had one enrichment facility, one pilot facility with 164 centrifuges of 3.5 percent enrichment capacity, one generation of centrifuges and utmost 100 kilograms of reserved uranium. However, after imposing the sanctions, it acquired two enrichment facilities and 12000 spinning centrifuges and increased the level of uranium enrichment up to 20 percent. It can also make use of new generation of centrifuges and accumulated 8 thousand kilograms of enriched uranium (Mousavia, 2013). The advancement of Iran's nuclear program during years of implementation of sanctions demonstrate that the western policy of force and intimidation has worked as a driving force behind Iran's move towards nuclear self-sufficiency. It was similar to what happened during the Iran-Iraq war when Iran was initially unable to produce a single bullet and was totally dependent to the west for war equipment. However, during and after the war Iran constructed a huge defensive industry and became self-reliant in production of weapons. Iran has currently made far-reaching missiles and has even launched a satellite.

Iran is a vast country and the most stable one in the Middle East. Its geopolitical location and tight historical links to the surrounding regions has increased its sphere of influence from Afghanistan to Lebanon. Moreover, Iran has huge energy reserves and can provide European countries with their needed energy. While



the energy imports from Libya has diminished due to the civil war and Europe's relations with Russia is also severed over Ukraine, Europe can turn its eye to Iran as an alternative natural gas provider (Geranmayeh, 2015: 3).

At the regional level, sanctions had limited impact on the Iranian political approach. It was unwise for Europe to neglect Iran in the region concerning the ongoing crises like that of Syria. In other words, Iran's importance to Europe is not limited to the nuclear issue as there are many other matters of concern for Europe that Iran can play a major role in. On the other hand, in many cases the European predictions have not come true (including over the issue of Assad's fall). Europe is facing an immense flow of immigrants from Syria as a consequence of the western misinterpretation of what goes on in Syria. Above the issue of migration, Europe has to bear the security costs of the ongoing incidents in the Middle East. The terrorist incidents in Paris and Copenhagen carried out by ISIS are some signs that Europe cannot handle the Middle Eastern developments by eliminating Iran (Geranmayeh, 2015: 2).

With constructing a sanction regime against Iran and trying to marginalize the Islamic Republic through reduction of diplomatic ties, Europe deprived itself from the benefits of cooperation with Iran and lost its last shelter in the Middle East. Iran's absence in the Geneva conference was the most important reason of Europe's failure to initiate a constructive approach towards resolution of the Syrian conflict. Iran's priority is to stabilize the region to protect its boundaries from radical groups and has been able to act successfully in its eastern borders with Pakistan to dispel the radical groups and strives to prevent Pakistan from its further collapse into the hands of Taliban.

There are abundant reasons that demonstrate the failure of sanctions' effectiveness over time as the target countries learn to manage their trade and shift their economic partners from the sanctioning countries to the third ones. That explains why many

experts believe that the imposition of sanctions by some countries against others does not work as they are expected. Sanctions work when the factors that contribute to their success or failure are known beforehand and proper means to deal with them are in hand. Moreover, in order to be effective, there should be a universal consensus over stopping cooperation with the sanctioned country. In the case of Iran, however, such a consensus was lacking and no preventive measures to nullify Iran's instruments to diffuse sanctions were taken.

**Sanctions' Economic Effectiveness:** Economically, the European sanctions left three impacts on Iran. First they made it hard for Iran to access technology to advance its nuclear program. Second, the Iranian banks' connections with the global markets were restricted and third the government's budget was shrunk due to decrease in direct foreign investments and lessened natural gas and oil sales. In the first case, Iran was troubled but the flow of technology was not totally frozen. In the second and third cases the government could find alternatives. Therefore sanctions' success was questioned. In the case of Iranian banks access to global financial system, Iran created a parallel SWIFT and secured footholds in Hong Kong and Turkey. It also made for the losses through adoption of barter procedures or trade by Indian Rupees and Turkish Lira.

With implementation of sanctions, all payments were paralyzed and the international sellers started to refrain from sending goods due to the impossibility of exchanging documents and receiving cash. As a result, all opened LCs from the credit of the currency reserves of the Central Bank were suspended and the Central Bank opted for finding alternatives. Since there were many Iranians doing trade through the transnational branches of the Iranian banks, the partner European banks lost considerable benefits. The sanctions also had other consequences for the Iranian financial system. They limited access to the foreign reserves and froze the accounts. Increase in credit risks, reduction of public trust to country's banking system, reduction of



the profitability of the companies' shares in the stock market, cut of the currency resources and preventing flow of money to companies were among other negative impacts of sanctions.

Sanctions marginalized Iran further in the international economic system. Iran was banned from access to its reserves. Being dispelled from the international financial system and SWIFT made Iranian companies to do barter that made the monetary transactions hard, delayed and more expensive (Plaut, 2013). In general the consequences of sanctioning Iran's central and other banks and financial institutions are as follows: the international cut in bank transactions, freeze of Iranians assets overseas, restriction on the monetary activities based on dollars, increase in the costs of interactions and their risks due to the interference of the mediators and meddlers, increase in the final price of the produced goods and decrease in the competitive power of the domestic producers, soar in financial costs of doing trade, mounting of the inflation rate, stagnation and unemployment and at last the halt of gas and oil or other infrastructural projects.

By the end of 2011, Iranian rial lost two third of its value and the price of the basic goods like milk, meat and bread mounted (Khoksy, 2013). After implementation of European sanctions the value of rial against dollar was kept high artificially but the 2012 sanctions were hard enough for the government to stop supporting the currency value and rial lost 80 percent of its value. This in turn led to the increase in inflation rate from 29 percent to 70 percent (Erdbrink and Gladstone, 2013).

The sanctions increased the risk of investments. Until 2013 Iranian economy was in a two-year stagnation. The economic growth fell to minus 6.7 and the gross domestic product stayed at the same level as 2009. The most important sector of the economy hit by sanctions was the oil industry and production and export of petroleum dropped significantly. The infrastructure and car manufacturing sectors also experienced reduction of productivity.

After Ahmadinejad's term in office was terminated, the new administration took new fiscal and monetary policies to reduce inflation and stimulate economic growth. The statistics released by the central bank showed a 3 percent growth rate in the third quarter of 2014. This figure was minus 1.8 in the preceding year. The rate of the gross domestic product was estimated to be around 3 in 2014 (Eghtesad –e- Irani (a), 2015). The unemployment rate was also reduced to 14.7 (Joby Warrick, 2013).

The sanctions strategy reduced the economic and industrial growth of Iran, decreased the foreign investment, multiplied the inflation rate and reduced the production and export of natural gas and oil. Therefore if the sanction were meant to harm Iranian people they were successful. The sanctions hit the middle class and drove the private sector to the margins in favor of public sector. They also drove trade away from formal banking system towards the underground informal sectors. They consequently made Iran take distance from free market. However, if the sanctions were designed to dissuade Iran from pursuing its nuclear program not only they failed but they also accelerated the nuclear activities of the Islamic Republic of Iran. Overall, sanctions were effective in financially targeting Iran but with no favorable political outcomes.

About the quantitative consequences of international sanctions on the bilateral trade relations of Iran with its partners, there is little information. It is however clear that the sanctions had considerable impacts on the mutual trade and its amount has been in constant decrease. Since Europe was Iran's first trading partner before sanctions, the impact of the policy of sanctioning Iran was huge.

Between 2012 and 2014 intensification of European sanctions was with 17 billion dollars of loss to Iranian economy through reduction of export revenues. This was equal to 13.5 percent of the total export revenues and 4.5 percent of the gross domestic product. Among the European countries Italy was the first country, which made Iran to suffer the most losses from being unable to export to.



Germany and France are the second and third ones. As a result of sanctions car manufacturing and construction –as the two major employing sectors of economy- collapsed.

Table 3 – The Export Losses of Iran from Sanctions 2012 – 2014

Destination of export	Exports in 2011 (million dollars)	The estimated ratio of sanctions	The estimated ratio of sanctions from 2012 to 2014 (in million dollars)
Italy	6.762	-2.1	2.866
Germany	907	-0.8	532
France	3.222	-3.6	214
England	525	-1.1	165
The Netherlands	2000	-3.4	307

(Mottaghi, 2015: 16).

Table 4- the Real GDP Growth under Sanctions

Fiscal year	Estimation						Prediction	
	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
GDP growth	5.9	3	-6.8	-1.9	3	3.3	5.1	5.5

(Mottaghi, 2015: 22)

After sanctions intensification in 2012, the car production collapsed and reached 700000 cars per year. This is while the figure stood at 1.6 million before sanctions. The production fell by 40 percent as a result of sanctions (Macalusi, 2014, 9). The reduction of car production led to increase in unemployment in this sector that accounts for 4 percent of the total national employment. The situation was even worse for the women (Esfahani, 2015, 28).

**Energy:** Iran has abundant gas and oil reserves. The country has 154 billion barrels of discovered oil. This accounts for 9 percent of the total oil reserves and 12 percent of the OPEC's (EIA, 2015). The known gas reserves are also around 1.187 trillion cubic meter and falls just below Russia in the gas owners list. It is while 80 percent of gas is still untouched and the related fields have remained undeveloped. The sanctions led to the fall of gas production as well (EIA, 2015). Two types of sanctions in two phases brought the oil export of Iran to its lowest levels. First, sanctioning of Iranian central

bank by the United States in January 2012 and second, boycott of Iran's oil exports by the European Union in September 2012 (Avarjan and Mottaghi, 2015, 13). The sanctions hit the Iranian energy industry in four aspects: its capability to make use of the reserves through expansion of new sites and exploitation of new technology; increasing the production capacity; increasing the export capacity and finally the possibility of capacity building to minimize needs to energy imports.

The main target of sanctions was the Iranian oil sector as the backbone of the country's economy. Before sanctions, 80 percent of exports and 50 to 60 percent of the national budget was dependent on oil. The European Union was buying 600000 barrels of oil per day from Iran and it accounted for 18 percent of the whole exports. Before sanctions the oil and gas industry absorbed more than half of total foreign direct investments in Iran (Mottaghi, 2015, 16). The sanctions harmed Iranian oil and gas industry by depriving it from technology, knowledge and investments. With the European companies leaving Iran the government had to fill their place by the Iranian companies and a few Asian ones. The Russian and Chinese companies were the only companies that participated in the development of oil fields directly or indirectly.

Meanwhile, there are two very important points about the impact of sanctions on Iranian energy industry. First, during sanctions the total revenues dropped. This is while the amount of exports stayed unchanged. This is because Iran had to offer considerable discounts to the buyers to be able to sell its products. The technologic inferiority diminished Iran's ability to sustain production in an even level (Stevens, 2015, 6). Before sanctions, 3.7 million barrels of oil was produced per day, from which 2 million was exported. From 2012 onwards, the production and export of crude oil was reduced to 1 million barrels per day (Mottaghi (a), 2015, 21). This had an expense of 100 million dollars per day for Iran reaching 5 billion dollars per month (Spicer, 2012). The capacity of Iranian stores was 25 million barrels per day and they were filled by the end of 2013. In practice



from the beginning of 2012 the storing was reduced to 13 million barrels per day. Second, the non-oil trade has been always important in Iranian economic plans. Iran had strived to reduce its dependence to oil. To do so Iran had invested in some industries like car manufacturing, increasing taxes and reducing subsidies to products and services (Nephew, 2015, 7).

At the same time it should be also borne in mind that sanctions cannot be blamed as the only reason for the problems in oil and gas sector. In fact, sanctions only worsened the existing problems and limitations. Iran is itself in need of natural gas for domestic consumption. The country is also committed to provide the Iraqi, Omani and Pakistani needs for gas. This leaves limited potential for export to Europe.

Gasoline import was also another matter impacted by sanctions and was decreased from 120000 barrels per day to 30000 (Macaluso, 2014, 8). Petrol import was also reduced and the country had to produce it domestically. According to the world health organization's reports during the sanctions time, the heart diseases and cancer rose mainly due to the substandard quality of the Iranian produced petrol (Davidson, 2013).

The amount of natural gas exports was higher than that of oil. The country however is in need of 145 billion dollars of direct foreign investment until 2018 to develop its natural gas industry. The prospects for meeting this need are doomed by the sanctions imposition (Government Accountability Office, 2012). With the reduction of investments the amount of domestic natural gas consumption rose by 70 percent and Iran was pushed in to the margins of natural gas market.

During the recent years there have been studies about increasing Iran's crude oil production. The figures that are proposed are not reachable considering the sanctions presence. All western companies ceased to operate in Iran save for a few Chinese and Russian ones. Sanctions and lack of international participation have also left their

impact on implementation of different projects. The absence of experts, technology and investment have all contributed to termination or at least delay in implementation of such projects. Although some projects are still running but their pace has slowed down significantly.

In parallel to the reduction in oil exports, non-oil exports have risen. One reason was the initiatives that Iran adopted in regulating its foreign trade relations. For example, Iran could import gold in return for exporting consumer goods to other countries, this alleviated the pressure the country was tolerating under the conditions of sanctions and compromised the sanctions effectiveness. Sanctions also drove Iran to search for new markets and change their trade routes. As a result some foreign investment from new destination countries has found its way in to Iranian economy.

### **III- The Prospects for Sanctions Removal**

According to the comprehensive plan of action signed in July 14, 2015 all financial, economic, and banking sanctions are to be removed at the day of implementation of the agreement. The uranium enrichment is to be continued in Iran and the nuclear sites will continue to operate. Some believe that it was only the sanctions' pressures that dragged Iran to the negotiation table. However, there were many other factors involved in Iran's decision. Iran was indeed after advancing its development plans and plays a more active role in the international system. The country has all needed potential and human capital, economic capability and energy resources that BRICS or other such organizations need (Olmstead, 2015).

The implementation of the agreement improves the conditions of the financial market and absorbs many countries that are looking for a share in the Iranian market. The banks, car manufacturing industries, oil industry and refineries will be open to the world and new investments will take place. This increases the number Iranian transactions by rial and other credible currencies. Today the economic



prospects are improved and oil exports have risen. With return of Iranian oil to the world markets there will be more probability for reduction of oil prices and this is good news for the global economic growth. The trade opportunities and new investments in Iran is also in favor of global economy recovery. The lifting of Iran's sanctions has certainly its winners and losers. The trade partners of Iran like European countries, UAE, India, China and Turkey will benefit it. However, simultaneously the downfall of the oil price is to the disadvantage of the oil producer countries.

The first consequence of the sanctions removal is an increase in the Iran's oil export. It is predicted that within a year the Iranian oil exports will be doubled. The main window of opportunity for the Europeans after lifting sanctions is the energy sector. The lifting of sanctions may lead to the fundamental restructuring of the Asian energy and may bring about a new geopolitics of energy in Asia. The Iranian decision to choose its destination of natural gas by drawing pipelines will have major impacts on the Euro-Atlantic interests. Iran's plans to export its natural gas through pipelines will have consequences for the OBOR plan of china and also the eastern neighbors of the European Union. The Euro-Atlantic has the opportunity to provide the EU gas needs better and stabilize the natural gas provision of the eastern European countries with cooperation of Azarbaijan, Turkey, Georgia and Turkmenistan (Tanchum, 2015, p. 6).

Iran is a country of 78 million population and is the 27<sup>th</sup> country with highest GDP. According to Iran's central bank data 52 percent of national income is comprised of services, 18 percent of oil, 13 percent of industry, 12 percent of agriculture and 5 percent of construction. Many European countries are interested in investing in Iran particularly in the two sectors of natural gas and oil.

Sanctions removal leads to the exchange of financial resources between individuals and institutions including the European financial and credit institutes and their Iranian counterparts. Other matters that

return to normal status can be named as follows: opening bank branches, dependent companies or representative offices of Iranian banks in the European Union member states, new participations in form of joint investments, offering insurance services, offering specialized services to individuals or institutions, renewed pledges of the European countries to offer financial supports for trade with Iran including opening LCs, providing export insurances and offering loans, financial assistances and preferential loans to the Iranian traders.

To resolve the most pressing issue between Iran and Europe which is lack of confidence and approaching expansion and deepening of relations in multiple fronts there is need for an informal diplomacy parallel with the formal one. The type of diplomacy that I generally referred to as the track two diplomacy encompasses the interactions between elites and non-governmental actors of two countries. To improve Iran-EU relations one cannot make use of the state and non-state capacities separately and they should reinforce each other. The combined diplomacy is sometimes referred to as the one and a half diplomacy (USIP, 2011). The economic interconnectedness makes for an enormous guarantee for implementation of the nuclear agreement.

### **Conclusion**

International regimes are known as mechanisms of cooperation among states in different areas of international relations. They create trust and contribute to the stability of the international system. The most important role of international regimes is to foster cooperation among states. The international regimes built between Europe and Iran have some fundamental characteristics: first, although in the beginning sanctions were economic, they however gradually spilled over to other spheres. Second, sanctions were first general but gradually became more targeted towards specific sectors. Third, in the beginning the ironing shipment sanctions were only directed towards



nuclear technologies and tools, but later included dual use goods and gradually oil and natural gas.

In this paper, the European sanctions on Iran were studied from the perspective of their impact on both the subject country (Iran) and the sanctioning countries (European countries). From political perspectives, the sanctions were beneficial for the European Union because they showed the European common resolve over a matter of foreign relations. However, economically they were destructive as they pulled Europe out of the Iranian market and oil and gas industries. This left the rivals of Europe in Asia to fill the vacuum. If the sanctions tested and proved the internal unity of common action for Europe they failed to reach their ultimate political aim that is forcing Iran to abandon its nuclear program. This is however noteworthy that they contributed to bringing Iran to the negotiations table.

The sanctions dropped Europe out of Iran's lucrative market and here the European companies tolerated the most losses. Applying sanctions on Iranian oil and natural gas made the European refineries to readopt to the new oils with immense costs. Concerning the dire economic conditions southern European countries were dealing with such costs added to the deteriorating economic conditions. They at the same time made Europe more dependent to the Russian energy. The other consequence of sanctions was on the oil price. The hardships that the sanctions placed on ordinary Iranian people can also be regarded as violation of human rights. During sanctions the Iranian people were robbed of their basic rights and this tarnished the face of Europe in Iran.

About effectiveness of the sanctions some points have to be recalled. In political sense the sanctions were unable to reach their desired goal of stopping Iran's nuclear program and therefore sanctions were ineffective. Despite their economic effectiveness there are still some questions about how sanctions are economically justified. Iran could get around sanctions one way or another. The

sanctions were not able to paralyze Iranian oil industry when the country founded new consumption markets and leaned towards non-oil revenues.

Within European Union many experts believe that using sanctions is dangerous because they harm the economic and diplomatic interests of the union without serving their ultimate purpose. Iran had stood sanctions for thirty years and there is consensus that the sanctions were ineffective in changing Iran's behavior before 2012. The United States sanctions did not have specific strategic direction. The European sanctions hit the Iranian economy but were not effective as Iran managed to control their impacts. The political influence of Iran and the size of economy were the main reasons for the failure of sanctions. Iran formed various companies and used barter trading system to bypass the sanctions. The exports were diversified and the dependence to energy export as the main source of state revenue declined.

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