10 Limitations of the Economic Sanctions Against Iran

IRAN’S EFFORTS TO AVOID THE IMPACT OF SANCTIONS

Reporting to President Carter on 6 January 1980, the UN Secretary General, Kurt Waldheim, said that economic sanctions were unlikely to secure the release of the hostages, and that Iran would not be intimidated by economic embargoes; any such action would merely serve to harden attitudes to the United States. Despite the successes recounted in the previous chapter, the evidence available is not sufficient to prove that the sanctions were effective enough to force the release of the hostages. There are, indeed, several indications to the contrary.

In July, shops in Tehran were still full of Western goods. In August, the shortages of eggs, detergents, vegetable oil and milk ended; there was no shortage of meat; the bare essentials of life, such as wheat, were not difficult to obtain. The unemployment problem was indeed acute, but some urban workers who had lost their jobs went back to the countryside, which partly alleviated the situation.

One could argue that in countries, such as the Iran of 1980, where a modern economic system does not yet fully exist and the minimum standard of living has been low, it will be some time before people really come to feel threatened by economic collapse. It is, therefore, not really surprising that the sanctions failed to secure the quick release of the hostages.

Moreover, one should note that, as has been seen in almost every case of sanctions, there were loopholes which reduced the efficacy of the sanctions. Iran’s domestic efforts to mitigate the impact of the sanctions will now be considered.

Increasing economic independence

If the target is, or becomes, economically independent of the nations imposing sanctions, this will, naturally, save it from being vulnerable to external economic pressure. This premise was to underpin President Bani-Sadr’s approach to his own country’s economic policy. First, with

regard to the encouragement of domestic production in general, Bani-Sadr said in February 1980 just after he had been elected that one of the priorities of his administration would be the revitalization of the economy by increasing domestic production, while at the same time reducing imports. Beginning in early 1980, the Iranian government organized a number of exhibitions and seminars to encourage local production of as much as possible of the machinery that had previously been imported. The government claimed that these events had attained their purpose, and that Iranian industrialists would soon be able to supply the bulk of the equipment and spare parts needed, though there have been no official reports as to how far they succeeded in doing this.

Second, in the area of financial policy, President Bani-Sadr insisted that international loans would no longer be sought, as such financial arrangements would create further dependence. As a gesture of political independence, it was decided in May 1980 to disengage the Iranian rial from the US dollar and establish a link between the rial and the Special Drawing Rights (SDR).

Third, the Iranian government attempted to reduce the number of joint venture projects. Late in February 1980, the Islamic Revolutionary Council approved the cancellation of joint venture projects for oil exploration and production, for example, the Iran Pan-American Oil Company and the Société Irano-Italienne de Pétroles.

Fourth, long-term energy policy was re-assessed. The nuclear power programme initiated by the Shah was cancelled, and Iran decided to sell its 10 per cent stake in the Eurodif uranium enrichment consortium. Eliminating such means of generating electricity entailing considerable dependence upon advanced technology and financial assistance, Iran sought to ensure an adequate supply of electricity with its own resources and technology. Accordingly, Iran formulated a plan intended to give, within four years, oil-fuelled generating stations with a total capacity of 5,000 megawatts, as compared with the 3,621 megawatts of February 1980.

Fifth, to reduce Iran's heavy dependence on other countries for its supplies of food, the government increased subsidies to farmers by up to 50 per cent – which did, in fact, help to increase food supplies. In addition, the government promoted food production by making land available for cultivation through official confiscation and redistribution and by permitting company takeovers where they would increase the food supply. In April it was said that 'Iran's agriculture is having an extraordinary boom which should make the country self-sufficient in food in a year and help plans to revamp the economy.'