

## Case Studies in Economic Sanctions and Terrorism

### Case 79-1

#### US v. Iran (1979–81: Hostages)

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#### Chronology of Key Events

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|------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 16 January 1979  | Shah Reza Mohammad Pahlavi flees Iran for Egypt; Ayatollah Ruhollah Khomeini, religious leader, announces from exile in Paris he will appoint provisional government to rule Iran. (Congressional Research Service [CRS] 1981, 12) |
| 1 February 1979  | Khomeini returns to Tehran; on 11 February, Prime Minister Shahpour Bakhtiar is succeeded by Mehdi Bazargan, Khomeini supporter. (CRS 1981, 12, 14–15)                                                                             |
| 14 February 1979 | US embassy in Tehran is attacked, overrun; about 100 hostages are taken but released few hours later when Khomeini supporters disperse militants. (Rubin 1980, 369)                                                                |
| 9 March 1979     | <i>Middle East Economic Digest</i> reports large US oil companies, with US government support, have agreed to boycott Iranian oil on world market. (CRS 1981, 19)                                                                  |
| 22 October 1979  | Shah arrives unannounced in New York City for medical treatment. On 3 November, Iranian Foreign Minister Ibrahim Yazdi formally protests US decision to admit shah. (CRS 1981, 34–35)                                              |
| 4 November 1979  | Demonstrators overrun US embassy in Tehran, taking approximately 100 hostages, about 60 of whom are Americans. Demonstrators demand that US extradite shah. (CRS 1981, 35)                                                         |
| 5 November 1979  | Iran abrogates 1959 Cooperation Treaty with US, 1921 Friendship Treaty with USSR. Khomeini condones embassy takeover. (CRS 1981, 36)                                                                                               |
| 6 November 1979  | President Jimmy Carter sends Ramsey Clark, former attorney general, William Miller, Senate Intelligence Committee staff chief, to Iran to negotiate hostage release; Khomeini refuses to meet them. (CRS 1981, 36)                 |
| 8 November 1979  | US halts shipment of military spare parts to Iran. (CRS 1981, 38)                                                                                                                                                                  |

- 10 November 1979 Carter orders 50,000 Iranian students in US to report to immigration office with view to deporting those in violation of their visas. On 27 December 1979, US appeals court allows deportation of Iranian students found in violation. (CRS 1981, 38, 71)
- 12 November 1979 Invoking section 232 of Trade Expansion Act of 1962, and finding national emergency, Carter embargoes oil imports from Iran. Iran responds with oil export embargo against US. (CRS 1981, 38)
- 13 November 1979 US House of Representatives votes 379 to 0 to prohibit foreign aid, military assistance to Iran. (CRS 1981, 38)
- 14 November 1979 Invoking International Emergency Economic Powers Act, Carter freezes Iranian deposits in US banks and foreign subsidiaries, following announcement indicating that Iran might withdraw those assets. Tehran press announces closing of Iranian airspace, territorial waters to US aircraft, shipping. (CRS 1981, 39)
- 18 November 1979 Iran releases black and most women hostages. (CRS 1981, 40)
- 23 November 1979 Foreign Minister Abol Hassan Bani Sadr repudiates Iran's foreign debt. Iran estimates it at \$15 billion, *Washington Post* at “closer to \$7 billion.” (CRS 1981, 42)
- 4 December 1979 UN Security Council resolution calls for release of hostages, peaceful settlement of US-Iranian differences, participation by Secretary General Kurt Waldheim in resolving dispute. (CRS 1981, 50)
- 15 December 1979 International Court of Justice orders release of hostages, restoration of US property. (CRS 1981, 61)
- 26 December 1979 USSR occupies Afghanistan. (*New York Times*, 27 December 1979, 1)
- 29 December 1979 US proposes in UN Security Council that Secretary General Waldheim return to Tehran for another attempt at mediation; US also proposes economic sanctions if agreement cannot be reached within one to two weeks. (CRS 1981, 73)
- 12 January 1980 Half an hour before a scheduled UN vote on sanctions, Iran submits written three-part proposal for releasing hostages. Vote is postponed to clarify details of proposal, which seems to involve UN investigation into “crimes” of the shah, UN endorsement of Iran’s extradition request to Panama, return of shah’s assets to Iran. (CRS 83)

- 13 January 1980 Iran fails to clarify its proposal; USSR vetoes US proposal for economic sanctions. US reiterates its determination to apply unilateral economic sanctions, seek allied support. (CRS 1981, 84)
- 29 January 1980 Six Americans are smuggled out of Iran by Canadian embassy officials. (Rubin 375)
- 7 February 1980 US State Department announces that additional economic sanctions will be held in abeyance while diplomatic negotiations at UN continue. (CRS 1981, 101)
- 7 April 1980 Carter escalates program of economic sanctions. He breaks diplomatic relations with Iran; imposes export embargo (excluding food, medicine); orders inventory of \$8 billion in frozen assets and inventory of US financial claims against Iran to be paid out of those assets; cancels all Iranian entry visas; closes Iranian embassy in Washington, five Iranian consulates; orders departure of all 35 remaining diplomats, 209 military students. Carter threatens to take “other actions” if hostages are not released promptly. (CRS 1981, 148)
- 17 April 1980 Carter announces further economic measures. He prohibits all financial transactions between US citizens and those of Iran; imposes import embargo; bans travel to Iran except for journalists; releases, for US purchase, impounded military equipment intended for use in Iran; asks Congress to pass legislation to permit use of frozen assets for claims, reparations. (CRS 1981, 158)
- 25–27 April 1980 Carter launches unsuccessful military attempt to rescue hostages; Secretary of State Cyrus R. Vance resigns; shah dies in Egypt. (CRS 1981, 168, 250)
- 22 September 1980 Iran-Iraq border dispute intensifies into full-scale war. (CRS 1981, 301)
- 2–20 November 1980 Iranian parliament (Majlis) issues conditions for release of hostages: US to pledge not to interfere in Iranian affairs in future; US to release frozen assets; US to lift economic sanctions; US to return shah’s wealth to Iran. Carter responds that the conditions “appear to offer a positive basis” for resolution of crisis. On 10 November secret negotiations, led by Deputy Secretary of State Warren Christopher, commence in Algeria. On 20 November, Secretary of State Edmund S. Muskie says US has accepted conditions “in principle.” (CRS 1981, 367, 391)

- 29 November 1980 Militants at US embassy in Tehran transfer responsibility for hostages to government. (CRS 1981, 398–99)
- 19 January 1981 Algeria announces commitments agreed to by US, Iran pertaining to release of hostages: declaration of noninterference in Iran by US; establishment of escrow account in Bank of England for transfer of frozen assets; agreement for settlement of claims; revocation of sanctions; release of hostages; blocking of transfer of shah's wealth, giving government of Iran access to US courts to sue for its return; prohibition on prosecution by hostages or their families of claims against Iran for seizure of embassy. (*New York Times*, 20 January 1981, 1; Carswell 1981–82, 254)
- 20 January 1981 Ronald Reagan is inaugurated as president; hostages are released in exchange for partial transfer of Iranian assets; on 18 February 1981, Reagan administration decides not to renounce accords. (Malawer 1981–82, 485)
- 2 July 1981 US Supreme Court in *Dames & Moore v. Regan* (453 US 654, 1981) upholds accords by denying right of US firm to make claims against Iranian assets except in context of arbitration agreement. (Malawer 1981–82, 477)
- 18 August 1981 US transfers Iranian funds to escrow account in The Hague, as authorized by accords. (Malawer 1981–82, 485)
- April 1983 “Business contacts and commercial agreements between the United States and Iran, interrupted four years ago when Ayatollah Ruhollah Khomeini came to power, are slowly, haltingly resuming.” (*Washington Post*, 10 April 1983, F1)

### **Goals of Sender Country**

*14 November 1979*

“Although it was not universally understood, from the beginning the blocking had a dual purpose, the release of the hostages and the protection of the property claims of US individuals and corporations against Iran. The President’s report to the Congress on [this day] explicitly stated those objectives.” (Carswell 1981–82, 249)

*28 November 1979*

President Carter: “For the last 24 days our nation’s concern has been focused on our fellow Americans being held hostage in Iran. We have welcomed some of them home to their families and their friends. But we will not rest nor deviate from our efforts until all have been freed from their imprisonment and their abuse. We hold the Government of Iran fully responsible for the well-being and the safe return of every single person.” (Alexander and Nanes 1980, 481)

*22 January 1980*

Carter says US is ready to help Iran meet Soviet threat from Afghanistan, establish new relationship following release of hostages. (CRS 1981, 90)

*5 April 1980*

White House press secretary Jody Powell states president's intent of applying political and economic sanctions if hostages are not transferred to government custody. (CRS 1981, 146)

*20 October 1980*

Carter says that if Iran will free hostages, the US will release frozen assets, lift economic sanctions, seek normal relations with Iran. (CRS 1981, 347)

### **Response of Target Country**

*5 November 1979*

Khomeini, speaking immediately after embassy takeover: "...if they do not give up the criminals [the shah and Shahpour Bakhtiar, former prime minister, exiled in France]...then we shall do whatever is necessary...." (CRS 1981, 36)

*28 December 1979*

Iranian Foreign Minister Sadegh Ghotzbadeh warns that increasing US economic pressure will result in quick trial of hostages. On 14 January 1980, Ghotzbadeh says Iran could hold hostages "more or less forever." (CRS 1981, 72, 84)

*11 January 1980*

Iranian Oil Minister Ali Akbar Moinefar says Iran will cut oil shipments to any nation supporting economic sanctions against Iran. He says Iran ships 1 million barrels per day to Western Europe, Japan. (CRS 1981, 82, 86)

*15 February 1980*

Director of Iran's central bank says US must release \$6 billion in assets frozen by Carter in November 1979 before hostages will be freed. (CRS 1981, 106)

*4 April 1980*

Conservative clerical forces in Iran oppose any concessions to US, threaten total oil embargo-with help of Saudi Arabia, Bahrain, Kuwait, Iraq-against Western Europe, US if sanctions are imposed. (CRS 1981, 146)

*8 April 1980*

Iranian leaders almost welcome imposition of general economic sanctions, generally agreeing they will help rid Iran of American influence. Khomeini says sanctions are "good omen" because they signal US recognition of permanent loss of influence in Iran; students at embassy are pleased because sanctions will stop diplomatic efforts to have hostages released; Bani Sadr (now president) says Iran can handle effects of sanctions, says they allow Iran to "break free" of US; Revolutionary Council also "welcomes" action. Iran threatens again to halt oil shipments to any other nation

supporting sanctions. (CRS 1981, 149)

*19 April 1980*

Iran imposes oil embargo against Portugal. (CRS 1981, 160)

*24 April 1980*

Foreign Minister Ghotzbadeh says it is regrettable” that Europe has joined US sanctions but that Iran will never surrender to “force” and “pressure.” (CRS 1981, 164)

*13-14 June 1980*

Bani Sadr says economic situation is worsening, and inflation, economic blockade, in conjunction with people's fears, could create “sick economy.” Ghotzbadeh claims sanctions are not affecting Iran. (CRS 1981, 207, 208)

*3 August 1980*

Bani Sadr says that US economic sanctions have increased cost of Iran’s imports by 20 percent to 25 percent, that Iran needs spare parts denied by sanctions, concedes that sanctions are hurting Iran. (CRS 1981, 256)

*1 September 1980*

Ettelaat (newspaper in Iran) says Majlis should take up hostage question as soon as possible because economic sanctions are causing “severe pressure” on Iran. (CRS 1981, 280)

*2 September 1980*

Iranian Oil Minister Moinfar says sanctions have failed, attributes drop in oil production to deliberate decision to conserve resources rather than lack of spare parts or foreign technicians. (CRS 1981, 281)

*7 October 1980*

Mansur Farhang, former Iranian representative to UN, currently aide to Bani Sadr, says it no longer is in Iran's interest to hold hostages. (CRS 1981, 327)

*13 October 1980*

New Iranian Prime Minister Mohammed Ali Rajai states it is in Iran's interest to solve hostage crisis but that US, for political reasons of its own, does not want it resolved. (CRS 1981, 336)

## **Attitude of Other Countries**

### ***Mexico***

On 4 December 1979, President José Lopez Portillo says US decision to freeze assets is “hasty,” causes international monetary problem. (CRS 1981, 51)

### ***Japan***

On 14 December 1979, limits purchases of Iranian oil to 602,000 barrels per day, level prior to hostage takeover. Foreign Minister Saburo Okita says Japan has been forced to buy Iranian oil on spot market because of cutbacks in shipments by major US companies. (CRS 1981, 61)

On 18 January 1980, Japan announces willingness to cooperate with sanctions with exception of Japanese-Iranian petrochemical project at Bandar Khomeini. (CRS 1981, 87)

On 22 April 1980, Japan says it will go along with sanctions supported by EC; Japanese cabinet announces sanctions will become effective 2 June 1980. (CRS 1981, 87, 115)

### ***Austria***

30 December 1979: Tehran Radio reports Austrian ambassador to Iran as saying his country will not cooperate with US economic sanctions against Iran. (CRS 1981, 74)

### ***Soviet Union***

9 January 1980: Tass says USSR “will not allow the US to impose a decision to apply economic sanctions against Iran.” (CRS 1981, 81)

On 22 April 1980, USSR signs new trade agreement with Iran that, according to Iranian finance minister, is expected to offset US sanctions. (CRS 1981, 163)

### ***Australia***

On 15 January 1980, in response to US request, Australia reviews trade relations with Iran. (CRS 1981, 85)

On 19 February 1980, Australia sells 450,000 tons of wheat to Iran for delivery in March, July 1980. (CRS 1981, 108)

On 21 April 1980, Australia bans all trade with Iran except for food, medicine. (CRS 1981, 162)

On 20 May 1980, Australia cancels all contracts, including those signed before 4 November 1979. (CRS 1981, 189)

## *China*

30 January 1980: Tehran Radio announces China has agreed to maintain normal economic, commercial relations with Iran, to not cooperate with economic sanctions. (CRS 1981, 96)

## *Poland*

On 6 May 1980, Poland signs trade protocol with Iran. (CRS 1981, 176)

## *European Community, Other West European Countries*

On 17 January 1980, Chancellor Helmut Schmidt announces German support for sanctions against Iran. (CRS 1981, 87)

On 17 April 1980, Portugal bans all trade with Iran—first US ally to do so. (CRS 1981, 158)

On 22 April 1980, EC foreign ministers agree to reduce diplomatic representation in Iran, suspend arms sale, require visas for Iranian travel in Europe, discourage purchase of Iranian oil at prices above OPEC standard of \$32.50 per bbl. (Iran is asking \$35.50 per bbl). Export embargo is threatened if “decisive progress” is not made by 17 May. (CRS 1981, 163)

Sweden says it will not impose sanctions. Denmark, Britain, Norway recall ambassadors from Iran. (CRS 1981, 163)

On 28 April 1980, following US military rescue attempt, EC heads of state reaffirm solidarity with US, commitment to sanctions. (CRS 1981, 170)

On 13 May 1980, UK House of Commons passes enabling legislation for economic sanctions; Danish Parliament votes to apply sanctions. (CRS 1981, 183)

On 18 May 1980, EC issues communiqué stating that, on 22 May 1980, all contracts concluded with Iran since 4 November 1979 will be suspended. (CRS 1981, 187)

On 19 May 1980, UK decides against retroactive action on contracts concluded since 4 November 1979; instead it bans all new contracts after 22 May 1980. Other EC countries express dismay at UK's action. (CRS 1981, 188)

On 21 May 1980, West German, French, Italian cabinets approve, take necessary legal steps for implementation of EC sanctions. (CRS 1981, 190)

## *Canada*

On 23 May 1980, Canada bans exports to Iran, discourages citizens from travel there. (CRS 1981, 191)

## Legal Notes

*US International Emergency Economic Powers Act of 1977, Sec. 203(a)(1)*

“At the times and to the extent specified in section 202, the President may, under such regulations as he may prescribe by means of instructions, licenses, or otherwise-

(A) investigate, regulate, or prohibit-

(i) any transactions in foreign exchange

(ii) transfers of credit or payments between, by, through, or to any banking institution to the extent that such transfers or payments involve any interest of any foreign country or a national thereof

(iii) the importing or exporting of currency or securities; and

(B) investigate, regulate, direct and compel, nullify, void, prevent or prohibit, any acquisition, holding, withholding, use, transfer, withdrawal, transportation, importation or exportation of, or dealing in, or exercising any right, power, or privilege with respect to, or transactions involving, any property in which any foreign country or a national thereof has any interest; by any person, or with respect to any property, subject to the jurisdiction of the United States.”

## Economic Impact

### *Observed Economic Statistics*

#### **Iran: Trade with United States and OECD countries, 1978–81** (millions of dollars)

Year	Exports		Imports	
	US	Total OECD	US	Total OECD
1978	2,880	18,636	3,684	15,432
1979	2,784	15,084	1,020	5,885
1980	336	10,560	24	7,716
1981	63	6,996	300	8,088

*Source:* Organization for Economic Cooperation and Development, *Statistics on Foreign Trade—Monthly Bulletin*, various issues.

#### **Iran: Assets subject to US freeze and their disposition** (billions of dollars)

Assets held outside US	
Of which:	5.6
Claims representing Western loans to Iran	3.7
Escrow account for unresolved claims (nonsyndicated loans of US banks, about \$130 million of contested interest)	1.4
Cash returned to Iran	0.5
Assets in US	
Of which	6.4
Holding in nonblank US companies, on deposit in US commercial banks	3.6
Deposits with NY Federal Reserve Bank, returned to Iran	2.4
On deposits at US Treasury against orders for US defense equipment	0.4
Total	12.0

*Sources:* Carswell (1981–82, 256); Malawer (1981–82, 479).

**Calculated economic impact** (annual cost to target country)

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Reduction of Iranian imports from US during 1980–81 by annual average of \$858 million from 1979 level; welfare loss calculated at 30 percent of face value of trade.	\$257 million
Reduction in Iranian exports to OECD area during 1980–81 by annual average of \$6.3 billion from 1979 level; welfare loss calculates at 30 percent of face value of trade.	1,892 million
Estimated annual loss resulted from freeze of about \$12 billion of Iranian assets, at 10 percent of face value.	1,200 million
Total	\$3,349 million

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**Relative magnitudes**

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Gross indicators of Iranian economy	
Iranian GNP (1979)	\$87.4 billion
Iranian population (1979)	37.0 million
Annual effect of sanctions related to gross indicators	
Percentage of GNP	3.8
Per capita	\$90.51
Iranian trade with US as percentage of total trade	
Exports (1979)	14
Imports (1979)	12
Ratio of US GNP (1979: \$2,418 billion) to Iranian GNP	28

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**Assessment**

*Robert A. Carswell*

“Assessing the effect of the trade sanctions is difficult, particularly since the results of economic mismanagement in Iran can easily be confused with problems arising from externally caused shortages...even though the sanctions largely prevented direct resupply of these critical areas (many units of the armed forces and key installations in the gas and oil sector), Iran apparently was able, by paying exorbitant prices through middlemen, to meet its most critical needs.... Hence, the best that can be said now is that the sanctions undoubtedly caused Iran difficulties but probably not insuperable ones.” (Carswell 1981–82, 254)

“In sum, the financial sanctions employed against Iran over the hostage issue were effective because of special circumstances that differentiated the situation sharply from other cases where economic sanctions had historically been attempted. And the freeze of Iranian assets not only created negotiating complications but involved both short and long-term costs that cannot yet be fully assessed, as well as risks of a major change in banking practice that could seriously affect the status of the dollar as the world’s principal reserve currency. Finally, it must again be emphasized that the degree of leverage the sanctions exerted...depended on a high degree of cooperation by other countries.” (Carswell 1981–82, 264)

*The Economist*

“The Europeans, for example, imposed sanctions on Iran mainly to show their solidarity with the United States, rather than in the hope that they would help free the hostages.” (*Economist*, 2 October 1982, 102)

**Authors’ Summary**

***Overall Assessment***

- Policy result, scaled from 1 (failed) to 4 (success) 4
- Sanctions contribution, scaled from 1 (negative) to 4 (significant) 3
- Success score (policy result times sanctions contribution) scaled from 1 (outright failure) to 16 (significant success) 12

***Political and Economic Variables***

- Companion policies: J (covert), Q (quasi-military), R (regular military) Q
- International cooperation with sender, scaled from 1 (none) to 4 (significant) 3
- International assistance to target: A (if present) --
- Cooperating international organizations EC,UN
- Sanction period (years) 2
- Economic health and political stability of target, scaled from 1 (distressed) to 3 (strong) 1
- Presanction relations between sender and target, scaled from 1 (antagonistic) to 3 (cordial) 3
- Regime type of target, scaled from 1 (authoritarian) to 3 (democratic) 2
- Type of sanction: X (export), M (import), F (financial) X,M,F
- Cost to sender, scaled from 1 (net gain) to 4 (major loss) 3

***Comments***

The US objective in this case was specific: the safe return of the hostages. Progress toward this objective was painstakingly slow, yet the desired result was achieved, although at very high economic and political cost. Sanctions, in particular the financial controls, made a modest contribution to the outcome by increasing the cost of traded goods in the Iranian economy and, more importantly, by freezing a substantial share of Iran's financial reserves held in US banks.

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