

# Do Sanctions Work?

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### Lucy Hockings

Hello, everybody. Welcome to Chatham House and this incredibly timely discussion, I think, on whether sanctions do or don't actually work. I'm Lucy Hockings, I'm a presenter on BBC World News, which is our international channel. So if you're in a hotel anywhere or somewhere in the world with cable, that's the channel I'm on. I'm delighted to be here today to facilitate this discussion.

This is so relevant to what I do every single day, because we're busy considering this week these final negotiations to reach some kind of deal on Iran's nuclear programme. In the past month, Iran has raised the stakes again, demanding a total and immediate lifting of sanctions, which I'm sure most of our panel will agree is not only impractical but a little bit of an inflated idea. And of course, there is this ongoing issue of the sanctions against Russia. Sergey Lavrov has come out in the past few days and said that he does not seek confrontation in relations with the EU but 'we will let our European partners know that sanctions are, quite frankly, a road to nowhere'. So we know where Russia stands.

But one thing I was able to tell the panel tonight, which you may not know, in breaking news terms: this crisis may in fact be over because in the past few hours, I can tell you, McDonalds has reopened in Moscow. Very happy news for Muscovites. I think that proves perhaps that no deal is worth losing a Big Mac over, or a Happy Meal. So that's an interesting thing on the counter-sanctions front.

But we've got a great panel here this evening to talk to you. I need to tell you a few things before we get underway. This event will be held on the record. We do want some social media discussion though so do feel free to tweet using #CHEvents.

I'd like to introduce you to the panel. At the very end is our opening speaker, Francesco Giumelli, who is an assistant professor at the Department of International Relations at the University of Groningen. He lives and breathes this topic, I've just been finding out. Published two books on sanctions, the first explaining UN and EU sanctions after the end of the Cold War; the second, published in 2013, is entitled, *The Success of Sanctions: Lessons Learned from the EU Experience*. Francesco is going to open up with some broad ideas about how we see sanctions, where they're going, whether or not they are actually effective, in his experience.

Ian is next to me, Ian Bond, director of foreign policy at the Centre for European Reform. He was in the British diplomatic service for 28 years, with postings in Moscow and also at NATO. So I think we can expect some insights into Russia but also Ian is going to reflect a bit about what has been happening with Iran too.

Peter Attard Montalto is next to me here, executive director at Nomura International, also an emerging markets economist for emerging Europe and Africa. Peter has had a wide range of conversations with a network of policymakers and contacts in emerging markets and the EU, discussing what the economic impact of sanctions is as well as the experience of sanctions from a financial institution's point of view. So that's going to be fascinating, to hear from Peter.

Finally, Sara is at the end, Dr Sara Bazoobandi, who is an associate fellow here and also a lecturer in international political economy at Regents University London. Sara is an economic analyst for corporates, for think tanks, for policymakers as well. She is going to talk to us too about Iran and the longstanding sanctions against Tehran, whether or not they've been a success.

So it's a great panel. Let's get underway. There will be a question and answer session at the end so keep your brains ticking over. We are looking forward to hearing from you too, perhaps getting some thoughts from some members of the audience. Francesco, please.

## Francesco Giumelli

Thank you very much. Thank you very much for the invitation and for all of you to come here. It's an interesting moment also for me. Sometimes the academics are [indiscernible] and we do not have this privilege to share our work with such a big and interested audience, so thank you very much for being here.

The topic is extremely interesting. It's not only because I've been working on that for the past ten years, ten or twelve years, but also because it's actually extremely interesting now. When we think about sanctions, in reality we are talking about a foreign policy instrument. So we talk about the success of a foreign policy instrument. Sanctions are even more specific – the question or the title of the meeting today is, do sanctions work? If after about 1,500 years of using sanctions, we still ask this question, it means that it's very difficult to come up with an answer on sanctions.

In fact, it's even worse than that: we've been thinking, and the widespread belief is that we think about sanctions in terms of behavioural change. We impose sanctions if the Russians don't change their behaviour, if the Syrians don't change their behaviour and so forth. Then sanctions failed. This, of course, has a conflict with reality, because if you use this criterion, then it's very likely to come up with the answer that sanctions don't work. But in reality, we keep using sanctions all the time. As a matter of fact, in the past 25 years, we're using sanctions even much more than before.

So the question is: why, if they don't work – which is what most of the literature says – do we keep using sanctions? My answer, and that is also the argument that I'm going to illustrate in the next minutes, is because we got it wrong. The idea of looking at sanctions as changing behaviour is too limiting. Especially, it clashes with reality. The reality is much more complicated than that.

So what I'm going to illustrate in a second is we need to think about a way, we need to agree on a way of how to think about the success of sanctions, that somehow includes all the most important elements – I will try to outline them now – that allow us to talk. That's why also I will be very general and then the others will be going into the details of the case studies of our meeting today.

Basically, my contribution to the literature so far has been trying to define a procedure, a four-step procedure, that basically answers four basic questions. The first one: when we want to analyse sanctions, we need to know that sanctions were never imposed and are never imposed in isolation. There is always some sort of interaction with other foreign policy tools. Studies say that if you combine them with force or if you combine them with diplomacy, economic aid, then you have better effectiveness. Nevertheless, they are always used with something else.

So we need to think first: what is the relative weight of sanctions in the overall strategy? Because if sanctions have a very tiny role, then generalizing on the effectiveness of sanctions doesn't really make any sense. We need to think about what is the relative weight of sanctions within an overall strategy. So we're going to have Iran and Russia and we're going to see how that is not the same. That would be the first point.

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The second point: what do we expect from sanctions? The behavioural change is really only one part of a much more complicated story, because there are more audiences – there are internal audiences, people watching governments in the European Union, also at the international level, because there are different actors playing at the same time, especially with this evolution to targeted sanctions. So we don't sanction states anymore but we sanction anything which is not a state, which can be a company, a region, a political party, family members. We sanction the sister or the wife of Assad only because they are linked to him. So it's a completely different framework.

So there are at least three ways that sanctions can work. The first one is the coercive, the behavioural change. An actor changes their behaviour because he or she wants to change their behaviour.

The second is the constraining element. You impose sanctions not because you want to change the behaviour but because you want to make sure that that person or that target cannot do the action, even if he or she wants to do the action. That is the fundamental difference between coercion and constraining. In coercion the actor has to have somehow the willingness to cooperate. They can do whatever bad things they are doing that we don't like, but they don't because they decide not to do so. With a constraining element, they can't. If I don't give you weapons, you don't shoot at each other. That is not because you don't want, but because you don't have weapons. That is another idea.

Then the signalling dimension. In diplomacy – and we have much better people in the panel to talk about how important is signalling in diplomacy. It's important when you talk to the others, the target, but also when you talk to your own constituencies. Again, when we impose sanctions, we talk to reality. The reality is that a government needs to maintain consensus. How do you do that? By talking to your own people. Sometimes sanctions are also a way of talking to your own people.

So that is also, again, to keep everything in the picture: coercing, constraining and signalling.

Third, anything that you want to assess has to be assessed according to two major things. First is the cost. Nothing is bad or good if you don't compare it with some sort of cost. If you buy a very good car for 10 pounds – or 10 euros, as I come from the continent – then it's a very good purchase. If you pay 5 euros but a car is really bad, then you wasted 5 euros.

The same principle can be applied to sanctions. How much are sanctions on Russia costing and what do we get out of these? Because we also are tied up with the idea that we need to tighten the screws, we need to impose an impact, sanctions have to bite. It's not written anywhere that sanctions have to bite to produce a political result. As I said, the signalling dimension is very important. We have many cases in the past in which sanctions were imposed, very light sanctions, but they were very successful. Actually, there is one thing that everybody would agree in the literature: the threatened sanction, not the one that you impose, is the most effective one. Which means, no impact whatsoever.

So the idea is to look at the cost that you have to bear for sanctions and compare it with the impact and the political advantage that you have, thinking about intended and unintended effects – because there are all the time these two dimensions to be taken into consideration. Sometimes if you impose very hard sanctions, it's much more likely that they backfire. So it's a very bad idea to impose very heavy sanctions with certain kinds of targets. So this would be the third point.

The fourth point, and this is absolutely important, for academics have many problems because it's very difficult to measure, but anything is bad or good according to the alternative. There is nothing that you can say it's good by definition. You like something because the other options are bad, or are worse. So

sometimes sanctions might be the only viable option for governments to proceed in a certain environment. If you get to impose sanctions, it means that things are not going that well. Otherwise you wouldn't be talking about this. The Canadians and Europeans do not want to sanction each other because things go fine. You talk about sanctions when there is a very harsh disagreement.

So if you don't do sanctions, then what? First, what would be the political instrument that leads you to better results? Second, what would be the alternative world for you to deal with, without the imposition of sanctions? These are four lessons that we need to keep in mind every time that we think about any case of sanctions, because without considering these four aspects, we are basically missing part of the picture.

We cannot get to any proper understanding or evaluation of sanctions unless we keep these four elements in the picture. I will finish – I speak always more – first, a relative importance of sanctions in the strategy; second, what do sanctions want to achieve; third, the cost of sanctions compared to the political result; fourth, the alternatives to sanctions. Thank you very much.

### Lucy Hockings

Thank you very much, Francesco. Ian, can you address some of those four things when it comes to Russia?

### Ian Bond

Yes, that set me up very well actually, because when you look at the sanctions that the West has been imposing since March in response to the annexation initially of Crimea, the first tendency is to say this has obviously not worked. Russia is more entrenched than ever in Crimea and it has advanced into other parts of Ukrainian territory since then, so clearly they're not working.

On the other hand, you can say the Russian economy is going to hell almost as fast as the Ukrainian economy. We heard former Russian Prime Minister Kasyanov, who was on Radio 4 this morning, saying that if Russia continued on its current course, he reckoned that Putin had about another two years before he ran out of money and political road. So on that measure, maybe sanctions are working.

It's useful to look at the kinds of sanctions that the West has imposed, which fall broadly into three categories which coincide with some of what you were saying. The first is the diplomatic sanctions – that's your signalling function. The interesting thing for me is we thought, in a way, that we were imposing penalties on Putin by cancelling the G8 summit, whereas actually I think a much more effective way of humiliating Putin (if that's what you want to do) is to treat him in the way that he was treated at the G20, where nobody wanted to sit on his table, a number of foreign leaders were extremely blunt in their criticisms of what he was doing. But that's your signalling, in effect.

Then you've got targeted sanctions which the EU has imposed on individuals and companies. That's visa bans, asset freezes and the like. I have to say that although in general policy the EU and the US have stuck very close together on what they have been doing on sanctions, this is one area where the Americans have been rather bolder than the Europeans. In particular, the Americans have targeted with visa bans a number of individuals who are known to be particularly close to President Putin, people like Vladimir

Yakunin, the railways minister; Mr Sechin, the head of Rosneft, and so on. So these are people where obviously the intention of the Americans is to apply maximum leverage to people who are likely to have the ear of President Putin.

The EU, I think, worries about two things. One is it worries that cases will be brought by these individuals to the European Court of Justice and that they will lose those cases. But secondly, they worry about the links that those individuals have in Europe. Some of them are very well connected in Europe. Some of them have big personal investments in Europe. That acts as a constraint on what the Europeans are prepared to do. I think that's a mistake, but that's where we are.

Then the third group of sanctions that the West has imposed are the so-called sectoral sanctions. That's things like banning trading in new debt with a maturity of more than 30 days issued by a limited list of Russian banks and major companies; bans on military imports and exports; and bans on various kinds of technology. Again, the EU has kind of pulled its punches by not covering the gas sector, and I think that reflects our fear that the Russians may turn the gas off.

Western sanctions were designed not to hit ordinary Russians. Putin has done that for us, with his counter-sanctions. It's quite interesting that something which was clearly intended to hit European farmers quite hard is actually hitting Russian consumers much harder. The price of meat and poultry in Russia rose by more than 18 per cent between October 2013 and October 2014. Considering that Russians spend about, on average, a third of their household income on food, these are really no joke. That's something that the EU never intended and would have tried to avoid if they could.

That brings me on to the subject of collateral effects. We've seen quite a few of those. One of the oddities is this has fuelled corruption in an already corrupt system – again, in a way that probably the EU didn't anticipate and perhaps it should have done. I saw a great phrase in some of the media a few days ago: Russians are now buying 'Parmigiano-Belarussiano'. It should pain your heart, I think. But Belarus has suddenly, miraculously, become an exporter of food products that nobody knew they produced, including salmon from rivers they don't have, but anyway. The Belarussians are making a nice profit out of relabelling and selling these goods to Russia. So there's a sort of unintended consequence there.

Secondly, I'd say the sectoral sanctions have had a much bigger impact than anybody expected when they were imposed, because many finance companies are just steering clear of Russian business, whether or not it directly relates to companies that are under sanction, for fear that it might involve entities that are either under sanction themselves or linked to people who are under sanction. That's forcing big Russian companies to turn to the state for help. Most notoriously, Rosneft going to the Russian government asking for more than \$40 billion from the national welfare fund, which is supposed to be the backstop for any shortfalls in the Russian pension fund. I find it fascinating that this doesn't raise more questions in Russia about why an immensely wealthy company is having to go cap in hand to the government for a bailout like this.

Then the third unintended (or at least unexpected) consequence is in relation to Russia's relationship with China. What fascinates me there is that although Russia is sort of threatening the West that if you horrible to us, we are going to go and make friends with China, it's clear that the Chinese see this as giving them tremendous leverage. When President Putin signed a 30-year gas deal with China in May, the Chinese seemed to have driven an extremely hard bargain. This is a deal which at least for the next decade or so is going to cost Russia a lot of money with no payback. There's a real risk for Russia that it ends up in fact as a kind of raw materials appendage for China.

Anyway, just briefly, the question on the exam paper was: have sanctions worked? My answer to that is: first of all, it's not clear to me that the West quite established what they were trying to achieve. So going back to the question of coercion, was this about changing behaviour? Did we actually expect that the packages of sanctions that we've imposed would force the Russians to retreat from Crimea and other parts of Ukraine? Or was it rather about constraint, about weakening the economy to the point where foreign adventures, at least in terms of going any further than Russia had already gone, became prohibitive? We're not quite sure.

I think for some EU leaders, the whole thing was about signalling. It was about saying: we don't want to get involved in this militarily, we have enormously important trading links with Russia, but we recognize that we have to be seen to be doing something – and this is something, so we should do it. So one conclusion might be that if you can't agree on what your aim is, you're probably not going to achieve it.

But possibly a slightly more optimistic conclusion is that the sanctions, whatever they were intended to achieve, are at least having an impact on Russia which is likely to make it more difficult for it to adventure on the international stage. And that, provided that the West holds its nerve, that's likely to continue to be the case. Whether ultimately it will change behaviour, it's probably too early to say.

### Lucy Hockings

Thank you, Ian. So you're fudging your answer?

### Ian Bond

I'm fudging, yeah.

### Lucy Hockings

Peter, do you have something coming down more on one side or the other?

### Peter Attard Montalto

As an economist, we love looking at cost-benefit analysis. If we think from the euro zone perspective, the European and EU perspective, as has been said already, there is a whole variety of other factors that you have to take into account. We think the overall costs, that we've calculated, of the sanctions and the reverse sanctions on European growth is probably tiny – probably something on the order of 0.1 or 0.2 percentage points of growth for this year. Clearly there are some other upsides coming elsewhere. As has been said already, there are signalling effects – the need to be seen to do something – filtering through as well.

So the cost-benefit analysis for the EU there is somewhat cloudy. But Russia is, of course, the key one when you're imposing sanctions of where that cost-benefit analysis really comes in. We have to look at

this through the prism of culture in Russia, the ability to take quite substantial pain as an economy, as people, the electorate on the ground. That's been seen through the pretty buoyant popularity that Putin still has. Those numbers we can probably, roughly, trust. And indeed, the costs that have been imposed on the leadership of Russia as well.

The classic example of this looking elsewhere was comparing, say, Latvia and Greece: two very different economic outcomes of imposing austerity and things like that, going through the euro zone crisis. So when we start looking at what the effect on the Russian economy has really been, it's very hard to disentangle what were the primary, first-round effects of sanctions, of limiting access to external hard currency funding, additional investment coming in (particularly in the oil industry) versus the impacts of what Russia did to itself through the trade restrictions on imported food, changes in currency policy, interest rate policy. All this stuff has been going on at the same time.

At the start of the year, we were roughly saying that GDP for Russia would be around 2.2 per cent. We're now saying it's 0.2 per cent. So clearly a lot has gone on. But when we actually look at specifically what those sanction impacts are and what those loss of profitability of companies, what were the [indiscernible] investment, we actually come out with a tiny number. It's basically about 0.2 per cent. That's a tiny impact of sanctions, if you think of that as the first-round effect.

So it seems then that sanctions, as we mentioned already, is really a catalytic effect through other means, through forcing policy reactions by Russia, which has caused the inflation view to shift out markedly from the sort of 6 per cent we were originally talking about for this year, now talking more about 10 per cent, as one angle. And capital flight as well – the signalling impact of sanctions there was very important. Before we had level-three sanctions, which were the sectoral sanctions on Russia in the middle of this year, there had already been \$75 billion of capital flight from the Russian economy. After that, there's only been \$13-odd billion to date. We think that will continue through the rest of the year, probably – we were talking about \$75 billion before that middle of the year stage, \$15 billion after. So that signalling impact, beyond simply what sanctions did directly around capital, is definitely extremely important.

But on top of that, I think probably what European policymakers weren't expecting, the payback for Russia if you like, is a weaker currency feeding through to offset the drop in oil prices that we've seen. So actually budgetary wise, this year at least, sanctions haven't really had an impact on the budget because of that change in currency policy that has gone, that has offset the fall in oil prices.

The more interesting impact of sanctions is really in the longer run. So if you're starting to get towards an Iran stage, where you're removing growth for an extended period of time, that's when you can have a real impact on the economy. So for instance, the foregone investment from the sectoral sanctions has a very limited impact on GDP this year, but when you start thinking about how that impacts potentially on GDP for the 2016-18 period for the Russian economy, we're talking about much larger losses of output, approaching then 1.5 percentage points of GDP.

So it feeds back into this idea that sanctions have to be a long-running policy tool. They're not a flash in the pan and you can get a change in view on the ground, a change in policy from Russia or any other country. So it's really that medium-run impact. On top of that, again, a catalytic effect that we've talked about is the capital refinancing that needs to be done next year. So there's \$80 billion of refinancing that needs to be done next year. Russia has a lot of substitutability, if you like: it has large reserves, it has the wellbeing fund which can be tapped, even if that's not what it was meant to be provided for. And there are still foreign banks providing hard currency capital and funding in Russia – it hasn't been a clean blanket. Many banks have taken very different views on Russia through the sanctions. There have been very risk-



averse banks that have said stop right up front, even before level-three sanctions were put in place, through to other banks and well-known household names who have basically gone in and said: we want to gain market share in Russia, we want to abide by the letter of the sanctions but not necessarily the spirit. So there is a certain amount of money still flowing in, financing still flowing in, that offsets that impact to some degree. But next year is definitely going to be a big challenge for Russia around that refinancing.

The other thing it comes down to, if sanctions are working, we have to look at the percentage of the economy that's really impacted. Through the financial sector, through the sectoral sanctions, we're talking about around a 10 per cent share of the economy that has some impact of sanctions at some level. Whereas if you would be talking about more drastic sanctions, such as cutting off gas demand from Europe, you would then be approaching sort of a 15-20 per cent impact on the economy as a whole, starting to impact a lot of upstream and downstream industries, a lot more connectivity from sanction sectors into the much wider economy.

Of course, there's been risk aversion from the EU around the impact that can have, more sanctions, on the EU – reverse sanctions. The EU being cut off from Russia's gas supply, if you're starting to target Gazprom, etc. But it shows that you need to be thinking about those kinds of levels of impact on the economy, to start having a much more serious impact overall.

So from our perspective, it's really about sanctions being a catalyst for a wider set of policy decisions in markets and currencies. But if we think about where GDP would have gone anyway this year, through the behaviour of foreign investors who became more unhappy about investing in Russia even if they were benchmarked bond investors, because of a conflict with Ukraine; if we think about some of those other things like currency policy change, like interest rate hikes that have had to happen – we would be talking about a substantial drop in GDP anyway, on top of structural problems that the Russian economy is having and the decline in potential GDP that had been happening in Russia because of an over-concentrated economy in the energy sector, because of a lack of structural reform, promoting growth in other sectors, as well.

So for us, the best we can get to the answer to the exam question is: it's been a catalytic effect around wider impacts on the economy that probably weren't intended by EU and US policymakers upfront when they started, but we'll have to have that pain inflicted over a substantial amount of time to really see those foreign policy objectives actually met.

### Lucy Hockings

Peter, thank you. So Sara, we're now very keen to hear about Iran and whether or not you feel sanctions have seen the changes we're seeing at the moment in Iran.

### Sara Bazoobandi

I think looking at Iran's experience with sanctions, my first message to send across is: it's important who sits on the receiving end of the sanctions, if you want to see any sort of coercive diplomacy effect on the administration or the government on the other side. That is quite visible in the recent change of administration in Tehran. President Rouhani's approach is quite different than President Ahmadinejad's

approach. When Rouhani came to the national TV channel to have an election debate, the first thing that he mentioned was – the promises that he gave to the people basically was that 'I am going to bring the value of your currency back and I'm going to bring the value of your passports back'.

So Iran is a country tired of being in that state of strategic loneliness. That obviously has contributed, in my opinion, to the reaction that Iran has given to the sanctions, to the most recent round of sanctions in fact. Let's not forget that Iran is a country that has been under sanctions for the past 36 years. The first round of sanctions imposed on Iran was in 1979, after the hostage crisis: \$12 billion of assets of the Iranian government were blocked by the US administration. Towards the end of the Iran-Iraq war, the war of tankers, in 1987, again another round of sanctions was imposed by the US administration, in terms of trade embargoes with Iran. In 1995 again, because of the support for terrorism and suspicion of weapons of mass destruction programmes, another round of sanctions was imposed on Iran, in terms of trade and investment by Americans.

In 2002, the nuclear programme became public. That was a turning point for the rest of the sanctions as we know them, and that was a turning point for, if you like, tightening the screw on the Iranian economy by the international community.

The gradual escalation of the sanctions was quite important in the case of Iran. It first started, as I mentioned, with the US unilateral sanctions. Gradually the European Union and the United Nations Security Council joined the effort to tighten the economic sanctions on Iran. In 2008, another round of sanctions by the US administration. 2010 was perhaps the strongest round of sanctions by the US administration, which created a lot of economic problems I'm going to talk about.

In 2006, Iran's nuclear file was sent to the UN Security Council. The UN issued six resolutions against Iran and Iran's nuclear programme; four of them included economic sanctions on Iran. Finally, when the European Union joined tightening the sanctions on Iran, it was when in 2012 they agreed to impose an oil embargo on Iran, which was the destination of 20 per cent of Iranian oil. So the gradual escalation was important. The change of administration, in terms of the reciprocation of the Iranian strategy-makers in Tehran, was also important.

So what did these sanctions do to the Iranian economy? Basically, the last round of sanctions were targeting two sectors: oil and gas, and banking. The European Union sanctions included kicking Iran out of all the SWIFT transactions. That was a major turning point for the Iranian banking system and Iranian international transactions. So as a result of all these pressures, what happened was Iran's oil export revenue fell somewhere between \$4 billion to \$8 billion, only in one year. Export of Iranian oil went down from 2.2 million to 700,000. That was another impact. Currency crisis: the Iranian currency declined by nearly 40 per cent. Further to that, it was also inflation, as a result of the decline of the value of the currency, that was one of the consequences that Iranians felt.

Growth massively declined. Between 2005 and 2013, Iranian GDP growth went from 6 per cent per year to minus 6 per cent per year. So that was quite a disastrous outcome for Iran.

What I would like to finish with is a few conclusions that are probably, in my opinion, applicable to more or less all the sanctions. Please correct me if you disagree with me.

The first conclusion is that sanctions are aimed to be targeted at governments but people pay the price of sanctions first and most.

The second conclusion is that sanctions generate corruption, and if there is an already existing corrupt environment they are going to encourage corruption. One of the biggest sources for corruption in the Iranian political and economic elite since the tightening of the sanctions was as a result of their effort to find back channels and bypassing methods to bring the petrodollars back out. A certain share of the oil income was spent on bringing oil income back to the Iranian economy.

The third conclusion is that sanctions are easy to impose but they are very difficult to be lifted. As you mentioned, one of the demands that the Iranian negotiations team has been putting forward to P5+1 since the beginning of this round of negotiations has been the immediate lifting of sanctions. But what P5+1 is offering is basically only limited release of assets, only limited waiver to the sanctions. The rest of the sanctions are going to remain intact for the period of the deal which they want – the P5+1 offer is something between 20 to 25 years. So it is very difficult to lift the sanctions.

The next conclusion is that sanctions highlight and worsen the structural economic problems. If you have an economic environment which is already suffering from unemployment and inflation and lack of efficiency and weak private sector, sanctions are definitely going to make those factors and problems more visible and more difficult to reverse and resolve.

Finally, what sanctions do is widen the gap between the rich and the poor in the society. There are always elites in every society that see sanctions and the limitation of economic activities imposed by the sanctions as an opportunity. As a result of that, while the rest of the society is becoming poor, that particular elite, who more often than not have privileges, have access to the political and economic policymakers, are going to grow more.

I think I'm going to stop here.

### Lucy Hockings

Sara, thank you. So a lot there to digest. We are going to open up the session now to some questions from the floor.