As it orients towards the Caspian, Washington modifies sanctions against Iran

James Brookfield
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The Clinton Administration made two diplomatic overtures towards Iran last week. First, on Wednesday, April 28, it decided to allow US firms to sell food and medicine to the country, along with Libya and Sudan. Though the State Department continues to denote all three states as "terrorist," and to maintain other economic restrictions against each of them, it will now permit the sale of "human necessities" on a case-by-case basis rather than continue the existing blanket trade embargo on all products.

Then on Friday, the State Department dropped its designation of Iran as the world's chief terrorist nation. The *New York Times* quoted an unnamed government official as saying, "If the Iranians read this as a signal for better ties, fine."

Little official explanation was given for these changes. This is remarkable in that only last August the US bombed a pharmaceutical plant in Khartoum, Sudan and less than two years ago William C. Ramsay, the Deputy Assistant Secretary for Energy, Sanctions and Commodities, claimed that "no nation's behavior poses a greater threat to US political and security interests than that of Iran."

What accounts for the new approach from Washington?

Some cast the sanctions policy change as a humanitarian gesture. "The use of food as a weapon is wrong," said Senator Larry Craig of Idaho. That Congress has yet to drop embargoes against Iraq and Cuba indicates, however, that Mr. Craig's principle is honored more often in the breach than in the observance by US policy makers.

Other government officials pointed to less noble motivations. "For America's farmers, this policy means opening up new markets and reviving old ones that had been off-limits, giving them a chance to boost their bottom line." If one reads "big agribusiness" for "America's farmers" one gets closer to the truth. The first deal awaiting approval from the US Treasury Department is a $500 million shipment of grain and sugar from the US-based Niki Trading Company to Iran. In addition to the Niki deal, US companies now expect to sell $500 million worth of commodities to Iran each year.

More significant than the expected windfall for US agriculture, however, is the strategic shift in US policy that is being initiated via these two diplomatic steps.

The Clinton Administration and the Iranian government of Mohammad Khatami have been seeking, each for their own reasons, a diplomatic rapprochement of sorts, described by US officials as a "dialogue," since the latter's 1997 election.

In the preceding four years, Washington, hostile to Tehran since the Iranian revolution and wary of its status as a regional power, had sought to pummel the country economically. In the spring of 1995 it ratcheted up its existing trade sanctions. This move prompted a sharp fall in the rial and increases in Iranian unemployment and inflation. The US followed up the next year with the Iran-Libya Sanctions Act which threatened penalties for foreign firms that did business with either of the two countries.

Even prior to the 1995-96 sanctions the Iranian economy was in severe difficulty. The country had been largely bankrupted by its eight-year war with Iraq in the 1980s. Then falling commodity prices hit. Export oil earnings fell from $19 billion in 1986 to $10 billion in 1998. With little capital to invest in the modernization of industry, substantial sections of Iranian policymakers began to debate proposals for "reform" including cutbacks on domestic gasoline subsidies and the opening of the oil industry to private ownership and at least partial foreign control. By 1995 the government had signed a contract with Total, the French oil company, to develop the Sirri oil field. In 1996 Iran was reported to have launched a secret bid to join the World Trade Organization, which would have required the further undoing of restrictions on foreign trade. This setting served as the backdrop to the coming to power of the Khatami government.

The new administration continued the turn toward Western investment, trade, and diplomatic relations. Last month, for example, the parliament passed a law allowing up to 49 percent foreign ownership of Iranian oil refineries. The government also signed a $1 billion deal with Elf Aquitaine of France and ENI of Italy to modernize an offshore oil field in the Persian Gulf. Khatami also actively courted US policymakers, taking the step, unprecedented since 1979, of granting an interview to US television in 1998.

The new Iranian orientation coincided with a foreign policy debate among US officials and business executives about relations with Tehran. Oil companies, effectively locked out of investing in Iran, found themselves at a competitive disadvantage vis-à-vis their European rivals. At the same time, Iran acquired newfound importance to these circles by virtue of the discovery of significant petroleum reserves in the Caspian Sea basin countries to its north, particularly in Turkmenistan and Kazakhstan.

In the estimation of one oil executive, Terry Koonce of Exxon, these countries may contain 100-200 billion barrels of oil equivalent (BOE-oil plus gas expressed in "barrels"). Western companies have set up joint ventures with local governments to exploit these reserves. They are expected to invest 300-500 billion dollars in the region over the next twenty years.

Iran's importance in this new oil rush is two-fold. First, it is a possible export conduit. Second, it is a military and strategic factor in the calculations of US policy makers and oil companies.

Some of the big firms have expressed interest in creating pipelines through Iran to export oil and gas. Total, for example, had proposed a $2.5 billion pipeline to bring natural gas from Turkmenistan, through Iran, to Turkey, where it would be sold. A trans-Iranian pipeline, a "southern route," for oil export to the Persian Gulf has also been discussed. This proposal has the advantage of being relatively cheap (less than $2 billion), though it is opposed by the US State Department, which continues to threaten sanctions against companies that would invest in such a pipeline.

Instead, the US has argued for a "east-west route" for the export of Caspian oil, beginning at Baku (Azerbaijan), passing through Georgia and Turkey, and terminating at the Mediterranean port of Ceyhan (Turkey). Such a pipeline would cost roughly $4 billion to construct, a price tag that has the oil companies balking. If a US-Iran rapprochement were reached, and business confidence established in the safety of investing in Iran, the "southern route" would be the favored path.

Even without a "southern route" however, Iran takes on a new significance. It is now a regional power lying adjacent to smaller, newly independent countries in which Western business is making substantial investment. New diplomatic alignments are being weighed. In the eyes of some US officials and oil executives, it may be possible to see Iran transformed from a "rogue state" into, if not a US client, then at least an effective counterweight to the other regional powers, particularly Russia, China, and, to a lesser extent, Turkey.

One analyst, S. Frederick Starr of the Central Asia-Caspian Institute at Johns Hopkins University, has argued that insofar as the US cannot police the region alone, its geopolitical interests might best be served by ensuring that no one country "acquires a dominant voice in the region." He has even suggested that Iran be one member of a proposed "Cooperation Council for Central Asian Security."

The US government is looking for a small shift in relations with Iran at this point. It does not favor a dramatic strengthening of the country's position. A stated objective of US policymakers is to deny Iran leverage over the economies of the neighboring Caspian states, with whom Iran competes in the export of oil and natural gas.

The ambivalence of the US position was indicated when the State Department denied, also on Wednesday, a request by Mobil for a "swap" with Iran, a request to deliver to Iran oil produced from its operation in Turkmenistan in exchange for Iranian oil delivered to Mobil at the Gulf. This deal would have allowed Iran to use the oil for its domestic consumption and Mobil would in effect be able to bring oil from Turkmenistan to the world market.

Immediate political dilemmas facing the Clinton Administration likely contributed in part to the timing of US diplomacy this week. While leading the NATO attack on Yugoslavia, the US has been forced to reduce the frequency of its ongoing bombing raids on Iraq. With less official attention in Washington being given to the Persian Gulf, US policymakers would likely regard the present as an inopportune moment for worsening relations with Iran.