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CFR backgrounders. Source: <http://www.cfr.org/sanctions/economic-sanctions/p36259>

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What are economic sanctions?

Introduction

Governments and multinational bodies impose economic sanctions to try to alter the strategic decisions of state and non-state actors that threaten their interests or violate international norms of behavior. Critics say sanctions are often poorly conceived and rarely successful in changing a target's conduct, while supporters contend they have become more effective in recent years and remain an essential foreign policy tool. Sanctions have become the defining feature of the Western response to several geopolitical challenges, including [Iran's nuclear program](#) and [Russia's intervention in Ukraine](#).

What are economic sanctions?

Economic sanctions are defined as the withdrawal of customary trade and financial relations for foreign and security policy purposes. They may be comprehensive, prohibiting commercial activity with regard to an entire country, like the longstanding [U.S. embargo of Cuba](#), or they may be targeted, blocking transactions of and with particular businesses, groups, or individuals.

Since 9/11, there has been a pronounced shift toward targeted or so-called “smart” sanctions, which aim to minimize the suffering of innocent civilians. Sanctions take a variety of forms, including travel bans, asset freezes, arms embargoes, capital restraints, foreign aid reductions, and trade restrictions. ([General export controls](#), which are not reactive by nature, are often excluded from sanctions discussions.)

When are sanctions used?

National governments and international bodies like the United Nations and European Union have imposed economic sanctions to coerce, deter, punish, or shame entities that endanger their interests or violate international norms of behavior. They have been used to advance a range of foreign policy goals, including counterterrorism, counternarcotics, nonproliferation, democracy and human rights promotion, conflict resolution, and, most recently, [cybersecurity](#).

Sanctions, while a form of intervention, are generally viewed as an alternative to military force—a lower-cost, lower-risk, middle course of action between diplomacy and war. Policymakers may consider sanctions a response to foreign crises in which the national interest is less than vital or where military action is not feasible. Leaders can on occasion issue sanctions rapidly to buy additional time to evaluate and prepare more punitive action. For example, the UN Security Council [imposed comprehensive sanctions \(PDF\)](#) against Iraq just four days after Saddam Hussein's invasion of Kuwait in August 1990. The Council did not authorize the use of military force until months later.

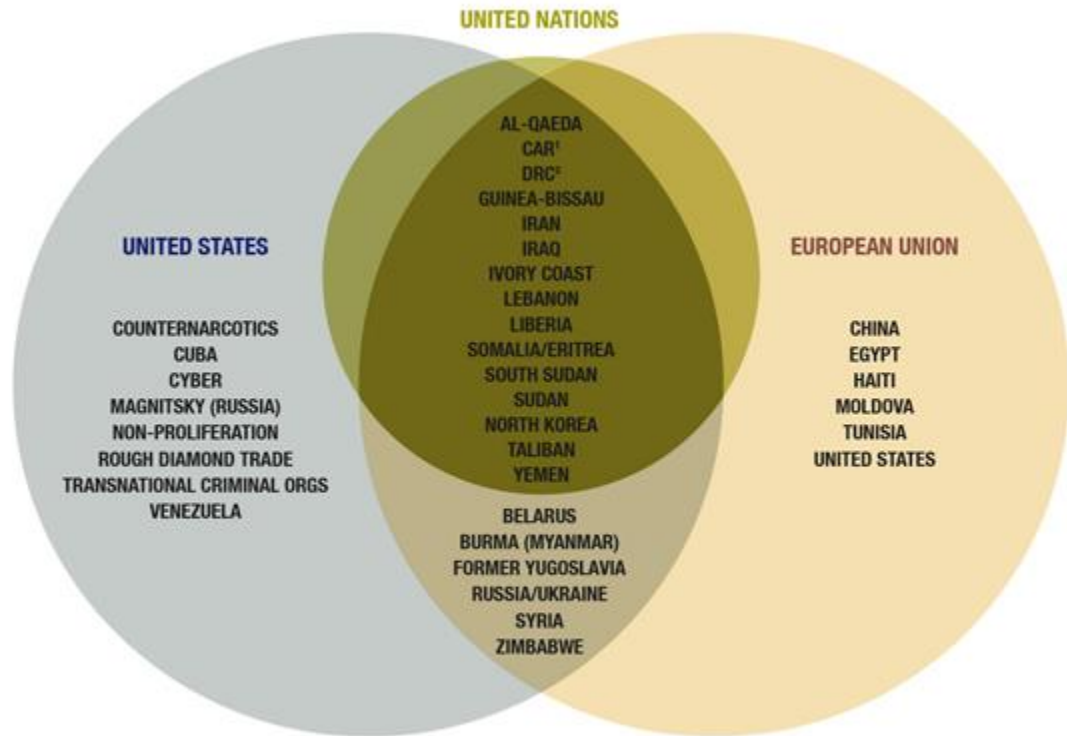
What is the sanctions process at the United Nations?

As the UN's principal crisis-management body, the [Security Council](#) may respond to global threats by cutting economic ties with state and non-state groups. Sanctions resolutions must pass the fifteen-member Council by a majority vote and without a veto from any of the five permanent members: the United States, China, France, Russia, the UK. The most common types of UN sanctions, which are binding on all member states, are asset freezes, travel bans, and arms embargoes.

UN sanctions regimes, including most of the sixteen in place in early 2015 (the most in history), are typically managed by a special committee and a monitoring group. The global police agency Interpol assists some sanctions committees, particularly those concerning [al-Qaeda and the Taliban](#), but the UN has no independent means of enforcement and relies greatly on member states, many of which have limited resources and little political incentive. Anecdotal evidence suggests that enforcement is often weak.

Prior to 1990, the Council imposed sanctions against just two states: Southern Rhodesia (1966) and South Africa (1977). However, since the end of the Cold War, the body has used sanctions more than twenty times, most often targeting parties to an intrastate conflict, as in Somalia, Liberia, and Yugoslavia in the 1990s. But despite this cooperation, sanctions are often divisive, reflecting the competing interests of world powers. For instance, since 2011, Russia and China have [vetoed all four Security Council resolutions](#) concerning the conflict in Syria, some of which could have led to sanctions against President Bashar Al-Assad's regime.

GLOBAL SANCTIONS REGIMES



1. Central African Republic 2. Democratic Republic of Congo

Source: U.S. Treasury Department

Credits: Jonathan Masters, Julia Ro

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What is the sanctions process in the European Union?

The European Union imposes sanctions (known more commonly in the twenty-eight-member bloc as [restrictive measures](#)) as part of its Common Foreign and Security Policy. Because the EU lacks a joint military force, many European leaders consider sanctions the bloc's most powerful foreign policy tool. Sanctions policies must receive unanimous consent from member states in the Council of the European Union, the body that represents EU leaders.

Since its inception in 1992, the EU has levied sanctions more than thirty times (in addition to those mandated by the UN). Analysts say the comprehensive sanctions imposed on Iran in 2012 marked a turning point for the bloc, which had previously sought to limit sanctions to specific individuals or companies. Individual states, of course, may impose harsher, autonomous sanctions within their national jurisdiction.

What is the sanctions process in the United States?

The United States uses economic and financial sanctions more than any other country. Sanctions policy may originate in either the executive or legislative branches. Presidents typically launch the process by issuing an executive order (EO) that declares a national emergency in response to an “unusual and extraordinary” foreign threat, such as “the proliferation of nuclear, biological, and chemical weapons” (EO 12938) or “the actions and policies of the Government of the Russian Federation with respect to Ukraine” (EO 13661). This affords the president special powers (pursuant to the [International Emergency Economic Powers Act](#)) to regulate commerce with regard to that threat for a period of one year, unless extended by him/her or terminated by a joint resolution of Congress. (Executive orders may also modify sanctions.)

Notably, most of the more than fifty states of emergency declared since [Congress placed limits on their duration](#) in 1976 remain in effect today, including the first, ordered by President Jimmy Carter in 1979 with respect to Iran. (This was [last extended](#) by President Barack Obama in 2014.)

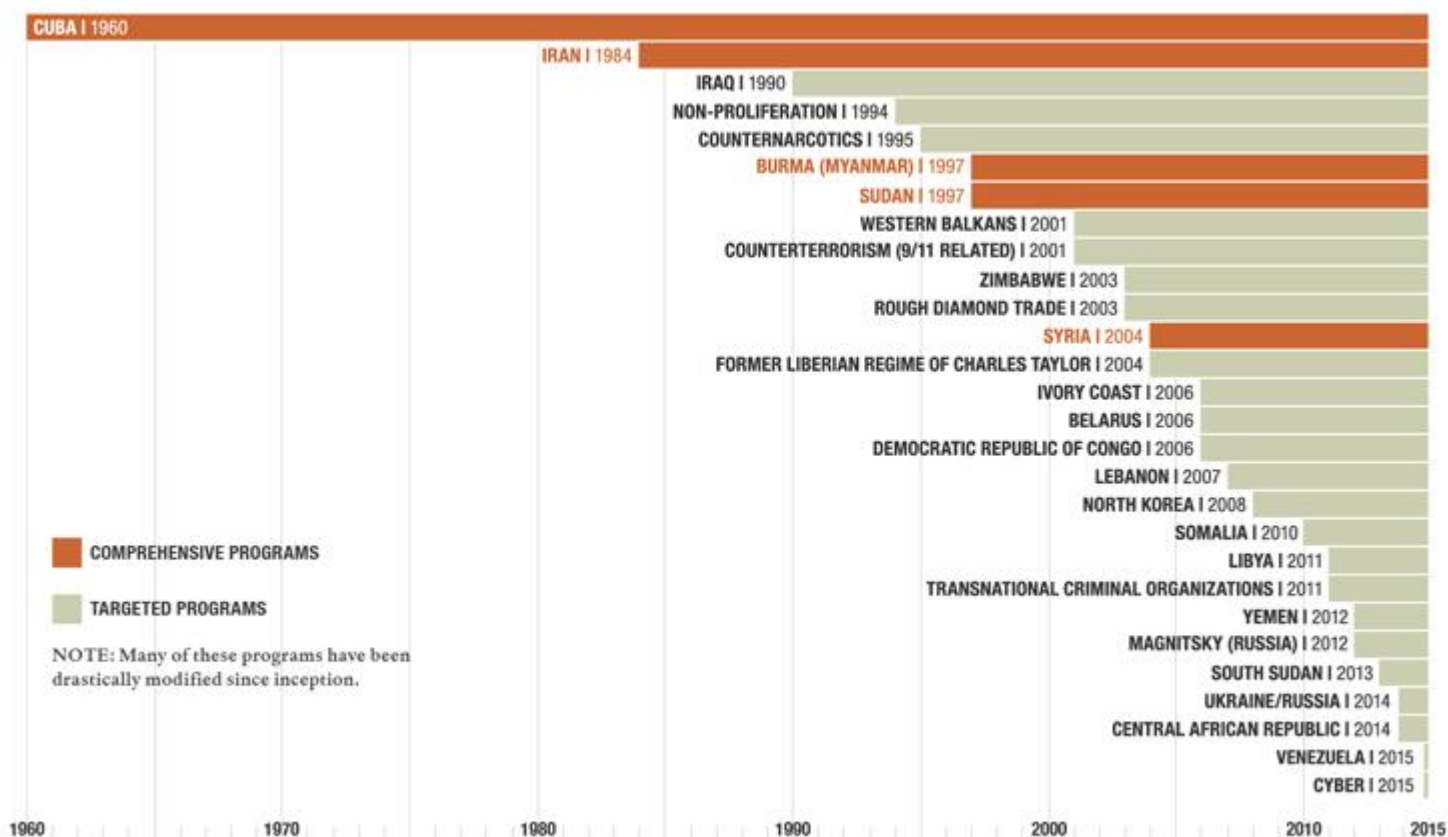
Congress, for its part, may pass legislation imposing new sanctions or modifying existing ones, which it has done in many cases. In instances where there are multiple legal authorities, as with Cuba and Iran and others, congressional and executive action may be required to alter or lift the restrictions. For example, there are ten statutes and more than twenty-five executive orders associated with the Iran sanctions program.

For the most part, the twenty-six existing U.S. sanctions programs are administered by the Treasury Department’s [Office of Foreign Assets Control](#) (OFAC), while other departments, including State, Commerce, Homeland Security, and Justice may also play an integral role. For instance, the secretary of state can designate a group a [Foreign Terrorist Organization](#), or label a country a [State Sponsor of Terrorism](#), both of which have sanctions implications. (Travel bans are handled by the State Department as well.) State and local authorities, particularly in New York, may also contribute to enforcement efforts.

In early 2015, the United States had comprehensive sanctions regimes on Burma (Myanmar), Cuba, Iran, Sudan, and Syria, as well as more than a dozen other programs targeting individuals and entities pertaining to certain political crises or suspected of certain types of criminal behavior, such as narcotics trafficking. OFAC routinely adds (or deletes) entries on its blacklist of more than six thousand individuals, businesses, and groups (known as [Specially Designated](#)

Nationals.) The assets of those listed are blocked, and U.S. persons, including U.S. businesses and their foreign branches, are forbidden from transacting with them.

U.S. SANCTIONS PROGRAMS



Source: U.S. Treasury Department

Credits: Jonathan Masters, Julia Ro

COUNCIL ON FOREIGN RELATIONS

How did the 9/11 attacks change sanctions policy?

In concert with its allies, the U.S. government launched an all-out effort to disrupt the financial infrastructure supporting terrorists, international criminals, and other rogue actors. This campaign focused on the gateways of the global financial system—international banks—and relied on a handful of new authorities granted to U.S. agents in the days after the attacks.

On September 23, President George W. Bush signed [EO 13224](#) that provided Treasury Department officials with far-reaching authority to freeze the assets and financial transactions of individuals and other entities suspected of supporting terrorism. Weeks later, Bush extended to the Treasury broad powers (under [Section 311](#) of the USA Patriot Act) to designate foreign jurisdictions and financial institutions as “primary money laundering concerns.” (Notably,

Treasury needs only a reasonable suspicion—not necessarily any evidence—to target entities under these laws.)

Experts say that these measures fundamentally reshaped the financial regulatory environment, greatly raising the risks for banks and other institutions engaged in suspicious activity, even unwittingly. The centrality of New York and the dollar to the global financial system mean these U.S. policies are felt globally.

Penalties for sanctions violations can be huge in terms of fines, loss of business, and reputational damage. Federal and state authorities have been particularly rigorous in prosecuting banks in recent years, settling at least a dozen cases with fines over \$100 million since 2009. In a record settlement, France’s largest lender BNP Paribas [pleaded guilty](#) in 2014 to processing billions of dollars for blacklisted Cuban, Iranian, and Sudanese entities. The bank was fined nearly \$9 billion—by far the largest such penalty in history—and lost the right to [convert foreign currency into dollars](#) for certain types of transactions for one year.

MAJOR U.S. SANCTIONS VIOLATIONS CASES 2009-2015

BANK NAME	HEADQUARTERS	YEAR	FINE
BNP PARIBAS	France	2014	\$8.9 Billion
STANDARD CHARTERED	UK	2012	\$667 Million
ING	Netherlands	2012	\$619 Million
CREDIT SUISSE	Switzerland	2009	\$536 Million
ABN AMRO	Netherlands/UK	2010	\$500 Million
HSBC	UK	2012	\$375 Million*
LLOYD'S	UK	2009	\$350 Million
COMMERZBANK	Germany	2015	\$342 Million*
BANK OF TOKYO - MITSUBISHI	Japan	2014	\$315 Million
BARCLAYS	UK	2010	\$298 Million
BANK OF TOKYO - MITSUBISHI	Japan	2013	\$250 Million
CLEARSTREAM	Luxembourg	2014	\$152 Million
ROYAL BANK OF SCOTLAND	UK	2013	\$100 Million

Note: Major settlement threshold > \$100 million. Fines may include penalties for anti-money laundering laws violations.
*Fines are part of larger settlements involving related financial crimes.

Sources: U.S. Department of Justice, Department of Treasury, NY Department of Financial Services, Financial Times, Wall Street Journal, Royal Bank of Scotland
Credits: Jonathan Masters, Julia Ro

Similarly, those tainted by a U.S. money-laundering designation may suffer crippling losses. In September 2005, [Treasury officials labeled Banco Delta Asia](#) a primary money laundering concern, alleging that the Macau-based bank was a “willing pawn for the North Korean

government.” Within a week, customers withdrew \$133 million, or 34 percent of BDA’s deposits. The financial shock rippled across the globe, inducing other international banks to sever ties with Pyongyang.

“This new approach worked by focusing squarely on the behavior of financial institutions rather than on the classic sanctions framework of the past,” wrote Juan Zarate, a top Bush administration official involved in counterterrorism efforts, in his book *Treasury’s War* (2013). “In this new approach, the policy decisions of government are not nearly as persuasive as the risk-based compliance calculus of financial institutions.”

What are extraterritorial sanctions?

Traditionally, sanctions prohibit only a home country’s or region’s corporations and citizens from doing business with a blacklisted entity. (Unlike UN sanctions, which are global by nature.) However, extraterritorial sanctions (sometimes called secondary sanctions or a secondary boycott) are designed to restrict the economic activity of governments, businesses, and nationals of third countries. As result, governments typically consider these sanctions a violation of sovereignty and international law.

The controversy came to a head in the mid-1990’s after President Bill Clinton signed the Cuban Liberty and Democratic Solidarity Act. The law, which strengthened the embargo on then-President Fidel Castro’s regime, permitted U.S. companies and individuals to sue foreign entities that trafficked in confiscated U.S. property. In retaliation, Canada, Mexico, and the [European Union](#) all passed mitigating laws or regulations. Most U.S. allies have said they will not recognize secondary sanctions.

In recent years, the reach of U.S. sanctions continued to draw the ire of some close allies. France’s leadership criticized the [U.S. prosecution of BNP Paribas](#) as “unfair” and indicated there would be “negative consequences” on bilateral as well as U.S.-EU relations. “The extraterritoriality of American standards, linked to the use of the dollar, should drive Europe to mobilize itself to advance the use of the euro as a currency for international trade,” said Finance Minister Michael Sapin.

Do sanctions work?

Many scholars and practitioners say that sanctions, particularly targeted sanctions, can be at least partly successful and should remain in the tool kits of foreign policymakers. Evaluations of sanctions should consider the following:

- **The dynamics of each historical case vary immensely.** Sanctions effective in one setting may fail in another, depending on innumerable factors. Sanctions programs with relatively limited objectives are generally more likely to succeed than those with major political ambitions. Furthermore, sanctions may achieve their desired economic effect, but they may fail to change behavior. UN sanctions on Afghanistan in 2000 and 2001 exacted a heavy toll but failed to move the Taliban regime to surrender Osama bin Laden.
- **Sanctions often evolve over time.** A classic illustration of this is the U.S. regime on Iran. Except for a brief period in the 1980s, Washington has had sanctions on Tehran since U.S. hostages were taken in 1979. However, the scope of these measures and the logic behind them have changed dramatically.
- **Only correlations, not causal relationships, can be determined.** For example, many believe UN sanctions imposed on Liberia in 2003 helped bring about the collapse of the Charles Taylor regime, but any number of domestic and international factors could have played more decisive roles.
- **The comparative utility of sanctions is what matters** and not simply whether they achieve their objective. U.S.-EU sanctions against Russia may not stem the crisis in Ukraine, but other courses of action, including inaction, may have fared worse (and cost more). In some cases, sanctions may simply be intended as an expression of opprobrium.

Meanwhile, experts cite several best practices in developing sanctions policy:

- **Develop a well-rounded approach.** An effective strategy often links punitive measures, like sanctions and the threat of military action, with positive inducements, like financial aid. Some point to the [Libya strategy](#) adopted by the United States and its allies in the late 1990s and early 2000s that balanced diplomatic carrots and sticks to persuade then-Libyan President Muammar al-Qaddafi to forswear WMDs and stop supporting terrorism.

- **Set attainable goals.** Sanctions aimed at regime change or that offer the target little recourse except what it believes would be political suicide are likely to fail. Many cite the U.S. embargo on the Castro regime as a cautionary tale.
- **Build multilateral support.** Of course, the more governments that sign on to (and enforce) sanctions the better, especially in cases where the target is economically diversified. Sanctions against South Africa's apartheid regime in the 1980s, Saddam Hussein's Iraq in the 1990s, or on Iran and Russia today would not be nearly as powerful without multilateral support.
- **Be credible and flexible.** The target must believe that sanctions will be increased or reduced based on its behavior. In 2012, the Obama administration responded to major political reforms in Myanmar by easing some financial and investment restrictions. However, White House officials stressed that other sanctions remain in place to keep [Myanmar from backsliding](#).

Additional Resources

This study by Security Council Report (2013), an independent non-profit, provides an explanatory guide on the [fundamentals of UN sanctions](#).

This paper from the EU Non-Proliferation Consortium (2013) examines the [effectiveness of the bloc's sanctions policy](#), using Iran as a case study.

In *Treasury's War* (2013), former senior Bush administration official Juan Zarate pens a definitive account of how "financial warfare" developed into a major component of U.S. foreign policy following the 9/11 attacks.

In the *Georgetown Journal of International Law* (2013), three attorneys at Steptoe & Johnson LLP explain the basics of various U.S. sanctions regimes and the [compliance implications for multinational companies](#).

This primer (2014) from Alacra, a business and financial information provider, surveys [major enforcement actions for U.S. sanctions violations](#) (PDF) and offers lessons for compliance.