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A Stand Against Unilateral Sanctions

An Original Essay Written for the Weidenbaum Center
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"A level playing field."

In four simple words, that's what U.S. companies are seeking through their opposition to the American government's use of unilateral sanctions against other nations.

Unlike *multi-lateral* sanctions, in which the world's strongest nations act in unison against a specific country, *unilateral* sanctions are those imposed *solely* by the U.S. government as a way to pressure certain countries to change their behavior. When unilateral sanctions are imposed, U.S. companies are prohibited from doing business in the targeted country, leaving foreign competitors free to pursue any promising business ventures there. Clearly this puts U.S. companies at a distinct disadvantage in the global marketplace.

Many U.S. companies—including my company, Conoco—have been vocal critics of unilateral sanctions. During the last few years, more voices have joined the call through an organization called USA Engage. Today, this coalition includes more than 600 small and large American businesses, agricultural groups, and trade associations. Our mission is to persuade the U.S. government to curtail the use of unilateral sanctions and find more constructive, effective ways to promote positive change around the world.

We joined in this effort for two key reasons:

- To enable U.S. businesses to compete fairly with foreign companies, and
- Because we strongly believe that engagement and dialogue are more effective tools in changing behavior than isolation or sanctions.

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Why Sanctions—and at What Price?

Although sanctions are predominantly economic, they can also include political or military penalties. The U.S.—far more than any other country—uses sanctions to discourage the proliferation of weapons of mass destruction, promote human rights, end support for terrorism, thwart drug trafficking, discourage armed aggression, protect the environment, and oust repressive governments.

While our objectives may be noble, the price of *unilateral* sanctions is extremely high and their effectiveness is extremely low.

The Economic Cost of Unilateral Sanctions

By shutting U.S. companies out of certain parts of the world, unilateral sanctions place a heavy burden on American business. Consider these statistics:

- A study by the Institute for International Economics determined that in 1995, American companies lost at least $15 billion of exports to foreign competitors in the 26 countries that were subject to U.S. sanctions. For American workers, that meant the loss of 200,000 jobs.
- According to the National Association of Manufacturers, U.S. sanctions adopted from 1993 to 1996 placed "off-limits" export markets worth $790 billion.
- A 1994 Council on Competitiveness report found that eight sanctions cost the U.S. economy $6 billion in annual sales and 120,000 export-related jobs.

The high cost of U.S. unilateral sanctions is exemplified by the Soviet grain embargo of 1980, imposed to protest the Soviet Union's invasion of Afghanistan. President Carter told Congress that the grain embargo would make the Soviets "pay a price for aggression" and deter future expansions. The results, however, were quite different.

The grain embargo did not significantly reduce Soviet supplies because other countries stepped in to supply the needed grain. It is estimated that the total cost to the Soviet Union was only about $225 million in increased grain prices. And far from deterring the Soviets in Afghanistan, the embargo strengthened their resolve to stay and hardened popular opinion against the American action.

But while the embargo had a minimal effect in the Soviet Union, here in the U.S. the impact on American farmers was devastating. U.S. farmers had expected to sell 25 million tons of wheat and corn to the Soviets in 1980. The embargo reduced grain exports to 8 million tons, the amount required under a pre-existing commitment. In the end, the embargo cost American farmers $2.3 *billion* in lost sales.

To help farmers survive, the U.S. government purchased excess grain for storage, increased price supports for wheat and corn, and increased its promotion of agricultural exports—costing U.S. taxpayers $2 billion to $3 billion in deficit spending.

Even after sanctions are lifted, the effect can be long-lasting, with U.S. firms finding it difficult or impossible to regain a position in lost foreign markets. That was true after the grain embargo, since the Soviet Union was understandably reluctant to again become dependent on the U.S. for vital food supplies. Years later, grain sales to the Soviet Union still lagged pre-embargo levels.

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While unilateral sanctions affect many industries, the U.S. petroleum industry has been especially hard-hit. That’s because several of the targeted countries—including Libya and Iran—are among the most oil-rich nations on earth.

Conoco encountered the sanctions issue firsthand in 1995. At that time, Conoco was poised to become the first Western company to consummate a petroleum development agreement with Iran since their revolution nearly two decades before. But after the agreement was signed, the White House issued an executive order preventing Conoco from implementing the agreement. Within weeks, the French company Total captured the project on the same terms we had negotiated. In effect, they signed the very contract I worked so hard over many months to negotiate.

Some may wonder why it matters if U.S. energy companies are prohibited from doing business in Iran. After all, during the 1979-80 hostage crisis, Iran was seen as an enemy of the United States. But consider this—most of today's Iranian population had not even been born at the time of the hostage-taking, and increasingly Iranians seem receptive to developing stronger ties with Western nations. This is an important trend, since Iran is now the second-largest oil producer in the Middle East, after Saudi Arabia. Because of Iran's extraordinary energy resources, many non-U.S. petroleum companies are competing intensely for the opportunity to develop these valuable petroleum reserves—yet U.S. companies are shut out.

As a result, unilateral sanctions deny shareholders who invest in U.S. companies the financial opportunities enjoyed by those who invest in foreign companies that are able to do business without such restrictions. From an economic standpoint, the *real* beneficiaries of the U.S. sanctions policy are our foreign competitors. The losers are U.S. companies, their shareholders, and the American economy.

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The Effect of Unilateral Sanctions on Energy Security and Foreign Policy

Along with the economic toll, unilateral sanctions can have a detrimental and far-reaching effect on America's energy security and foreign policy around the world.

Again, Iran is an excellent example. In the energy industry, Iran has great strategic importance. The country holds roughly 9 percent of the world's oil and 15 percent of the world's natural gas reserves. Only Russia has more gas, and only a handful of countries—all in the Middle East—have more oil.

Iran controls half the coastline of the Persian Gulf and one side of the Straits of Hormuz, through which half of the world's oil moves. Iran also has large refining centers located close to the Caspian Sea. These refineries can, for example, absorb sizable volumes of oil from Caspian and Central Asian producers through swaps and exchanges at Iran's Kharg export terminal—a key gateway to the Asia Pacific market for producers in the landlocked Caspian region.

Clearly, poor relations with Iran make it difficult for U.S. companies to develop new energy supplies for world markets. And that is detrimental to the energy security of the United States and the world.

Iran is also important from a foreign policy perspective. One reason is its shared 900-mile border with Iraq. An adversarial relationship between the U.S. and Iran complicates the effectiveness of American foreign policy toward Iraq. Iran wishes to be a friend to the United States, not our enemy. We should be reaching out to Iran, not striving to isolate it. The U.S. needs more reliable and powerful friends in the region, not fewer.

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Many of our closest allies recognize this fact, which is why they simply don't agree with the U.S. position on Iran—or Libya, for that matter, where U.S. companies are also prohibited from doing business due to unilateral sanctions. When the U.S. "goes it alone" with unilateral sanctions, this negatively impacts our relationships with allies, as well as other countries with whom we'd like to have better relations.

Consider Cuba, for example. When Congress passed the Helms-Burton Act, the U.S. was attempting to stop other countries from doing business with Cuba. The result? Essentially zero impact on changing the behavior of the Cuban government, and the U.S. alienated some of its oldest friends and allies, such as Canada.

The hard reality U.S. policymakers must face is that Iran, Libya, and other targeted countries are open for business even *without* American competition. In today's global economy, market fundamentals—not U.S. foreign policy—will determine the flow of investment around the world.

The Case Against Unilateral Sanctions

The most compelling case against unilateral sanctions is that they seldom achieve their intended foreign policy goals.

Because non-U.S. companies are eager to fill the void left by locked-out U.S. companies, America's attempt to change a targeted country's behavior through unilateral sanctions almost always fails. When sanctions don't work, the perception is that America has failed. And when America fails, it loses its ability to influence and lead.

Instead of unilateral sanctions, a more effective way to achieve positive change is through engagement and dialogue. By bringing more countries into the international family of nations, the U.S. will have greater ability to influence political, military, and social issues in other nations. When my wife and I have a disagreement, we talk about how to resolve our difference of opinion. We don't retreat to separate rooms in our home, which is precisely the behavior that unilateral sanctions impose on nations.

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It's also clear that as countries develop economically, the people of these nations often become better educated and more demanding of their own governments. Issues such as human rights and environmental protection become important internal priorities.

Business can play a key role in the economic development of a country. Business transactions encourage the search for mutually beneficial solutions. To be successful, such transactions depend upon a stable and predictable business climate. If representatives from both countries work together, it may be a prelude to improved relations on more difficult issues.

On the subject of sanctions, U.S. policymakers should take some advice businesspeople often receive when they're facing financial difficulties. The advice is simple: "When you're in a hole, the first thing you should do is stop digging."

As Americans, we should stop digging and take a hard, dispassionate look at our policy on unilateral sanctions. U.S. companies, and the United States, have much to offer—and much to gain—by participating fully in the global marketplace. But this will happen *only* when the U.S. government changes its approach to influencing other nations. The time has come to abandon the sanctions policy of isolationism in favor of honest dialogue and positive engagement.

On January 1, 2001, the Center for the Study of American Business was renamed the Murray Weidenbaum Center on the Economy, Government, and Public Policy. The new name honors Murray Weidenbaum, the Center's founder and past director, and describes more precisely the Center's areas of research. The Weidenbaum Center retains the prior mailing address and telephone number: Weidenbaum Center, Washington University, Campus Box 1027, One Brookings Dr., St. Louis, MO 63130-4899, (314) 935-5630. The web site address is wc.wustl.edu.

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