For close to two decades, U.S. foreign policy has aimed at limiting the economic development of post-revolutionary Iran. In recent years, the policy has selectively targeted Iran's oil industry, and limited the involvement of non-U.S. firms in Iranian petroleum projects. The existing U.S. sanctions have also terminated all U.S.-Iran trade for the first time in Iran's post-revolutionary history.

Perceived by many as the most persistently anti-U.S. government in the Middle East, Iran has undoubtedly been one of the more problematic nations for every U.S. administration since 1979. Previously, Iran was considered America's closest ally in the Persian Gulf. But, following the Islamic Revolution, relations between the two countries have more often been characterized by hostage-taking, military confrontation, and harsh exchanges of allegations.

More recently, economic relations between the two countries have been further strained by a series of trade and investment sanctions which have seriously hampered all economic activity between the two countries. The multitude of sanctions imposed on Iran in the past two decades have also been instrumental in shaping Iran's international trade policy and its emerging economic partnerships in the region.

U.S. ECONOMIC SANCTIONS: AN OVERVIEW

In reacting to economic sanctions, Iran has used a variety of strategies that have often evolved as a function of internal and regional political conditions at the time. These strategies have also been influenced by the nature of the sanctions imposed. Thus, Iran's policies have varied in different time periods.

Iran's post-revolutionary years can be divided into four distinct time periods: 1) Revolution and the Iran-Iraq War Years, 1979-1988: This period was difficult for the Iranian economy due to instability following the revolution and the destruction inflicted by the war with neighboring Iraq. It is also a period during which American hostages were taken at the U.S. embassy in Tehran, and is therefore characterized by a state of political and economic isolation, facilitated by a multitude of trade sanctions. 2) The Post-war Reconstruction Era, 1989-1992: Iran's economy focused on recovering local production capabilities lost during the Iran-Iraq war: attracting international technology and investments, fostering foreign partnerships for developing the country's infrastructure, and relaxing import restrictions. U.S. trade sanctions were also relaxed during this period. 3) Dual Containment and Trade Sanctions Renewal, 1993-1995: Starting in 1993, the Clinton administration exercised a series of restrictive trade measures on Iran as part of a
dual containment strategy intended to curb the economic development of both Iraq and Iran. During this period, Iran strengthened its regional partnerships through a series of long-term bilateral and trilateral economic agreements. 4) Iran-Libya Investment Sanctions (1996-present): In 1996, dual containment shifted focus on Iran through the implementation of the Iran-Libya Sanctions. The sanctions restrict non-U.S. firms investing in Iran's oil sector, thereby extending U.S. law beyond American borders. Although the sanctions created a temporary slowdown in foreign investments in Iran, they have found little international support. The extraterritorial nature of the Iran-Libya sanctions has recently been challenged by firms in Europe and the Far East.

In each of the above time periods, Iran's policy measures addressed specific themes and objectives. For example, in the years of the Iran-Iraq war, Iran placed much emphasis on diversifying its international trade routes in order to reduce reliance on Western suppliers. However, following the end of the war in 1988 and the instability of international oil markets during the mid-1980s, expansion of non-oil exports became a primary objective.

Since the early 1990s and the breakup of the neighboring Soviet Union, Iran has focused on developing regional economic partnerships, not only with the former Soviet republics to the immediate north, but also with neighbors to the east and west. Such long-term partnerships have also become critical in recent years as a means of countering U.S. investment sanctions which specifically target Iran's oil industry.


Prior to the 1979 revolution, trade between Iran and the United States prospered. In 1978, American goods accounted for $4 billion (or 21%) of all Iranian imports, making the United States Iran's number-one trading partner.(1) However, following the Islamic Revolution of February 1979, featuring the slogan "down with America," diplomatic relations deteriorated with subsequent effects on trade. The taking of hostages in the U.S. embassy in Tehran in November 1979 worsened the situation.

The first formal U.S. sanctions against Iran were ordered by President Carter in April 1980, following the break in diplomatic relations between the two countries. The sanctions banned all U.S. exports to Iran. Although the United States was able to secure support among its allies for the sanctions, they were short-lived. By early 1981, following the Algiers Accord securing the release of the American hostages, the sanctions were lifted. (2) In 1984, the Reagan administration renewed sanctions against Iran. The Arms Export Control Act and Export Administration Act of 1984 restricted the list of products which American companies could export to Iran. Exports of certain goods such as aircraft and vehicles, as well as products with potential military applications, were effectively terminated. U.S. oil companies, however, continued to extract Iranian crude oil for import into the United States.

Economic relations between the two countries suffered further in 1987-1988, following the U.S. re-flagging of Kuwaiti oil tankers in the Persian Gulf. During this period, numerous incidents involving U.S. and Iranian naval forces, and especially the shooting down of an Iranian airliner carrying over 200 passengers by the American navy in 1988, increased the tension between the two countries. In October 1987, Reagan issued an executive order banning the import of all Iranian goods and services—an amount totaling close to $1 billion. U.S. oil companies were also prohibited from importing Iranian oil into the United States.
for local consumption. (They were, however, allowed to continue purchasing Iranian oil for their non-U.S. markets through their overseas subsidiaries.) Additional export controls were put in place in 1987. (3)

The sanctions imposed during the 1980s contributed to a realignment of Iran's trade. For example, the 1980 sanctions, while short in duration, forced Tehran to seek new economic partners. However, in diversifying trade, Iran intentionally avoided traditional pre-revolution suppliers in Western European (Germany, France, and Britain) and Japan. Tehran at the time believed U.S. political influence would hinder free trade between Iran and Japan or Western Europe—a critical issue during the war with Iraq. Plans were therefore developed to reduce the country's overall dependence on these suppliers, and to forge relationships based on political, rather than purely economic, considerations. (4)

As Iran's economic ties to the United States diminished considerably, trade and economic relations with smaller European countries, Eastern Europe, Islamic, and non-aligned nations grew significantly. The revised 1979 Iranian constitution mandated that the government assume tight control of Iran's international trade. Private sector importers were thereafter required to obtain prior authorization from government agencies to conduct their business, and as a result, the influence of the government in determining the sources and nature of Iranian imports grew substantially.

Control over international trade was also facilitated by a series of selective bilateral agreements. For example, while the United States had traditionally been Iran's primary supplier of wheat, Australia and New Zealand quickly took on that role. Iran's other commodity requirements such as meat, sugar, and iron, were met by small European countries such as Sweden, Denmark, and Italy, as well as Eastern bloc countries such as the Soviet Union, Yugoslavia, Poland, and Romania. During this period, the Iranian government also undertook formal schemes to limit the trade imbalance which existed with some Organization of Economic Cooperation and Development (OECD) countries. This was achieved by restricting the amount of permitted imports from specific countries, such as Japan, Germany, and the UK, to a predetermined proportion of exports to those countries. (5)

With unprecedented controls gained by the government through the new post-revolutionary constitution, a persistent pattern of diversification in Iran's international trade became evident. As a result, the percentage of Iranian imports from traditional suppliers in the United States, Western Europe, and Japan witnessed a persistent downward trend. The table that follows outlines this trend. While prior to the revolution, these sources typically accounted for more than 80% of imports, in the years following the revolution they accounted for only about 63% of Iran's total import bill. The share of Iran's imports sourced from non-traditional suppliers more than doubled in this time period. This trend has continued until today, so that by 1996, following the latest round of trade and investment sanctions, the U.S. share of Iran's imports was zero, and Japan and Western Europe accounted for only half of Iran's import bill. Between 1995 and 1996 alone, the volume of imports from Iran's non-traditional suppliers grew by over 8%, as compared to 2% for its traditional suppliers.
The period following the end of the Iran-Iraq war fostered a more open foreign trade policy in Tehran. A series of measures aimed at liberalizing trade were implemented, and a new post-war economic plan focusing on the reconstruction of industries damaged during the war was drafted. Iran's new openness was facilitated by a more liberal policy in Washington. (7) During the early parts of the Bush administration, U.S. trade restrictions on Iran were slightly relaxed. In 1989, following the end of the Iran-Iraq war, the United States removed some of its prior trade restrictions and agreed to release close to $600 million of Iran's frozen assets in the United States. In late 1991, Bush allowed a limited amount of Iranian crude oil into the United States. (8) During this period, not only were American exporters doing a booming business in Iran, but American oil companies also became Iran's number-one customer for crude oil (most of which was shipped to U.S. subsidiaries in Europe). U.S. allies in Europe were also more openly conducting business with Iran, as evident by the trade statistics in Table 1.

As the second largest member of the Organization of Oil Exporting Countries (OPEC), Iran had historically been dependent on crude oil export revenues as the primary source of foreign exchange. However, during the war, many of Iran's oil fields and petrochemical facilities-highly accessible to neighboring Iraq-were severely damaged. The 1986 collapse of crude oil prices further highlighted Iran's excessive dependence on oil. Expanding non-oil exports was considered as an appropriate strategy in promoting the long-term economic health of the country. Therefore, following the war, expansion of industries with strong export potential became a prime objective (9).

To promote non-oil exports, production in industries with strong export potential -- such as handmade carpets and dried fruits -- was supported by various government programs. In this period, foreign exchange and customs restrictions on exporters were relaxed, income taxes for non-oil exporters were reduced, and bureaucratic processes were simplified to improve the flow of exports. Since the end of the Iran-Iraq war in 1988, non-oil exports' share of export revenues has therefore been on a rise, as evident by Table 2.

<table>
<thead>
<tr>
<th>Table 1: Share of Iranian Imports by Source Traditional Suppliers</th>
</tr>
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<tbody>
<tr>
<td>Time Period</td>
</tr>
<tr>
<td>--------------------------------</td>
</tr>
<tr>
<td>Pre-revolution (1975-1978)</td>
</tr>
<tr>
<td>Revolution and Iraq War (1979-1988)</td>
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<tr>
<td>Postwar Reconstruction (1989-1992)</td>
</tr>
<tr>
<td>Dual Containment (1993-1996)</td>
</tr>
<tr>
<td>Iran-Libya Sanctions (1996-present)</td>
</tr>
</tbody>
</table>
Carpets have been a notable area of growth. Between 1989 and 1992, Iran's carpet exports—the second largest source of export revenues—experienced a three-fold increase from $345 million per year to $1.2 billion. Similarly, exports of fresh and dry fruits almost doubled, and refined copper and textile exports grew by almost five times. Moreover, in the early 1990s, trade liberalization measures, and the privatization of state-owned businesses helped fuel economic activity and significantly increased production in non-oil industries. The net effect was increased flexibility given to private sector exporters, improved local productivity, and special incentives for export oriented business activities. As a result, while in 1989 non-oil exports accounted for less than $1 billion in annual exports, within three years the number had more than doubled.

**DUAL CONTAINMENT AND TRADE SANCTIONS RENEWAL (1993-1995)**

In 1993, the so-called "dual containment" policy was initiated by the Clinton administration focusing on the twin threats of Iraq and Iran. However, with the weakening of Iraq following the 1991 Persian Gulf war, the United States looked to balance regional powers by weakening Iran through various means such as trade sanctions and political isolation. (10) The Clinton administration began to persuade Europe and Japan to limit their involvement in Iran. With no formal mechanisms in place to force such a policy on its allies, persuasion was typically achieved through diplomatic discussions. (11)

To slow the momentum of dual containment, Iran attempted to offer lucrative contracts to American companies and to improve trade relations with the West during the early and mid-1990s. As a result, by 1994, the United States had become Iran's fifth-largest supplier of imports, and American oil companies had become the primary purchaser of its crude oil. However, during this period Iran also placed greater emphasis on developing long-term regional economic partnerships with neighboring countries. In 1989 Iran had signed a series of long-term economic and military cooperation agreements with Russia, which in subsequent years made Russia the primary supplier of combat aircraft for Iran's air force, and the supplier of three diesel powered submarines for the Iranian navy. (12) Despite U.S. concerns, Russia also began construction of an $800 million nuclear power reactor in southern Iran, and the two countries agreed to set up joint companies to explore and produce Caspian Sea oil.

Iran's regional partnerships were also facilitated by the breakup of the Soviet Union and by the common economic

<table>
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<tr>
<th>Table 2: Iran's Export Product Array Product</th>
<th>1979-88</th>
<th>1989-92</th>
<th>1993-94</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil and Gas</td>
<td>94.9%</td>
<td>89.2%</td>
<td>82.3%</td>
</tr>
<tr>
<td>Carpets</td>
<td>1.8</td>
<td>3.9</td>
<td>6.6</td>
</tr>
<tr>
<td>Fresh &amp; Dry Fruits</td>
<td>1.0</td>
<td>2.3</td>
<td>3.3</td>
</tr>
<tr>
<td>Leather</td>
<td>0.4</td>
<td>0.4</td>
<td>0.5</td>
</tr>
<tr>
<td>Copper &amp; Metals</td>
<td>0.2</td>
<td>0.3</td>
<td>0.7</td>
</tr>
<tr>
<td>Caviar</td>
<td>0.2</td>
<td>0.2</td>
<td>0.2</td>
</tr>
<tr>
<td>Textiles</td>
<td>0.1</td>
<td>0.1</td>
<td>0.2</td>
</tr>
<tr>
<td>Chemicals</td>
<td>0.1</td>
<td>0.2</td>
<td>0.1</td>
</tr>
</tbody>
</table>

Source: Country Report-Iran, Economist Intelligence Unit, London; years 1980-1997
interests shared by the former Soviet republics. As a result, Iran assertively developed economic relationships with the republics of the former Soviet Union to the north, aiming to become a regional transit point for gas and oil sourced from Central Asia. (13)

Due to unique geographical conditions, much of the oil and gas extracted from Central Asia would be exported more efficiently if shipped through Iranian pipelines or swap agreements. As a result, relations with neighbors such as Turkmenistan and Kazakhstan have pivoted primarily on these grounds. A notable agreement was reached with Turkmenistan and Turkey, whereby a 900-mile natural gas pipeline will link Iran to Turkey and is to be extended northward to Turkmenistan in order to help export Turkmen gas to Turkey. It will eventually reach Europe by early next century. Iran and Kazakhstan have also agreed to an oil swap deal, whereby Iranian refineries in the north are supplied with Kazakh oil, in return for shipments of crude oil in the Persian Gulf to Kazakh customers, thereby facilitating Kazakh oil exports through Iranian territory.

During this period, Iran also strengthened its regional partnerships to the east. With the 1995 visit by President Ali Akbar Rafsanjani to New Delhi, and the launch of the India-Iran chamber of commerce in that same year, economic activity between Iran and India increased. The two countries have also formed a joint shipping company, and finalized plans for a $400 million fertilizer project in Iran.

Iran has also proposed an extensive pipeline project to both India and Pakistan that would facilitate the export of Iranian gas using an undersea pipeline passing through Pakistan. Iran's relations with its neighbors in the Persian Gulf and with Turkey have also proven effective for dodging Western trade sanctions. These countries have played an instrumental role by becoming re-export centers for Iranian imports.

For example, the volume of exports from United Arab Emirates (UAE) to Iran between 1978 and 1996 grew more than fivefold, most of which consists of re-exports of western-made products. Iran's relations with Turkey have also pivoted on common regional interests. While both countries share security concerns with their respective Kurdish communities, and although Kurdish intrusions into each other's territories and internal interferences have for decades been a source of diplomatic tensions, the common economic interest in the energy resources of the area have often dominated bilateral relations. (15)

Other countries with which Iran developed closer partnerships during this period include China, Malaysia, and South Africa. China is cooperating with Iran in building Tehran's subway system and is also a supplier of military hardware, Malaysia has played a pivotal role in Iran's petroleum industry, partnering with a French oil concern, Total, in developing two Iranian off-shore oil and gas fields in the Persian Gulf. Iran and South Africa have also exchanged high-level visits and South Africa, which in 1994 began its purchases of Iranian crude for the first time in over a decade, now obtains most of its crude oil from Iran.

While the Iranian constitution does not allow production sharing with foreign investors in the oil sector, by the mid-1990s mechanisms for encouraging foreign involvement in petroleum projects were developed as an alternative. In 1995 a buy-back production sharing system was developed by the National Iranian Oil Company (NIOC) whereby foreign oil companies can invest in an Iranian oil field and recover their investments and associated profits though the sale of the produced oil. In what some analysts consider as an olive branch extended to the United States,
such a contract worth $600 million was agreed upon between NIOC and Conoco, a subsidiary of Dupont Corporation, for the development of two offshore oil and gas fields in the Persian Gulf (16). Although the Conoco deal was later canceled by the U.S. government, from a symbolic point of view, it could have created a significant shift in U.S.-Iran relations. The deal would have been the first contract awarded by Tehran involving a foreign entity in both exploration and development of Iranian oil since the 1979 revolution. As Conoco is an American firm, improved economic relations between the two countries was a conceivable outcome.

However, the Conoco deal would have also created a contradiction in U.S. foreign policy at a time when the United States was persuading its allies to restrict their business dealings with Iran. The Conoco deal also highlighted policy differences between the Clinton administration and the Republican-dominated Congress. These differences further accelerated the momentum of trade sanctions, such that in early 1995 an executive order prohibiting all American companies from any involvement in developing Iran's petroleum industry was issued, and shortly after a total trade ban on Iran went into effect. American companies were prevented by law to conduct any kind of trade with Iran--oil or non-oil--with criminal penalties for violating corporations ranging up to $500,000. Moreover, the export of American goods and services to Iran, and brokering or financing of such trade has since been prohibited. (17)

**IRAN-LIBYA INVESTMENT SANCTIONS (1996-1999)**

In 1996, dual containment took a special focus on Iran, through a round of investment sanctions aimed at halting the development of Iran's oil industry. With the

signing into law of the Iran-Libya Sanctions Act of 1996, non-U.S. firms investing more than $40 million in any one year period in Iran's oil industry were subject to a series of sanctions by the U.S. government. The U.S. president is empowered to choose two out of six possible sanctions against violating companies or their parent corporation. Possible sanctions include ineligibility to bid on U.S. government contracts, banning imports into the United States, denial of U.S. export licenses, refusal of U.S. Export-Import Bank assistance, refusal of loans over $10 million in any one year from U.S. lending institutions, and a ban on dealing in U.S. government bonds. (18) The sanctions were further amplified in mid-1997, by reducing the trigger investment amount from the original $40 million to $20 million per year.

Considering Iran's dependence on oil exports, the focus of the Iran-Libya Sanctions seems logical. With about nine percent of the world's oil reserves, Iran is OPEC's second largest producer of crude oil. Because Iran is highly dependent on oil production as the primary driver of the economy, the appropriate maintenance of the existing oil and gas fields, exploration and development of new fields, and the construction of pipeline networks are essential. To facilitate such developments, Iranian plans call for billions of dollars of foreign investment. This exactly is where the Iran-Libya Sanctions attempt to strike. By prohibiting U.S. firms' involvement in Iran's oil industry, and restricting that of non-U.S. firms to an investment cap of $20 million per year, the policy aims to prevent international assistance in developing Iran's oil sector.

In responding to the Iran-Libya Sanctions, Iran has been faced with several strategic options. One possible strategy has been to focus on local development of the technology required for Iran's oil facilities, and to not engage foreign partners in
investment tasks. This would not only help avoid triggering the sanctions, but would also be beneficial in the long-run as it will help create a self-sufficient petroleum industry. Clearly, such an approach would require the know-how to create the infrastructure needed to manufacture and service highly sophisticated petroleum and petrochemical projects.

A second option—one that would pose numerous political risks to the Iranian administration—has been to initiate a dialogue with the United States. Such a dialogue could aim at resolving the two countries' differences, and potentially lead to the lifting of sanctions. Finally, a third possibility has been to directly confront the United States by persuading non-American firms to violate the terms of the sanctions. Such a strategy would capitalize on the international reaction to the extraterritorial nature of the Iran-Libya Sanctions.

While Iran has exercised each of the above strategies to some extent, the strategy of choice seems to be one of direct confrontation. Following the 1996 announcement of the Iran-Libya Sanctions, expressions of concern were voiced by countries such as Japan, Canada, Australia, China, and member countries of the European Union. (19) Protesting the extraterritorial nature of the act, the European Union drafted retaliatory legislation should the Iran-Libya sanctions be exercised on an EU-based company. Support for the existing sanctions has also been limited by the state of Iran's international debt. A series of negotiations have since led to a restructuring of the debt, and as a result, Iran has been committed to billions of dollars of annual loan payments until the turn of the century. For countries such as Germany, France, Italy, Belgium, and Japan, any policy which targets Iran's oil production capabilities may also lead to difficulties in recovering billions of dollars worth of loans.

To further motivate non-U.S. firms to invest in Iranian oil, Iranian authorities have been heavily promoting a dozen lucrative oil and gas development projects. Iranian plans call for a 10 percent increase in oil production capacity by the turn of the decade, and a three-fold increase in the next three decades. To achieve such objectives, the government has offered exceptional terms for companies that invest and participate in these projects. This strategy has successfully attracted large European, Russian, and Far Eastern firms to such projects, thereby directly violating the terms of the Iran-Libya Sanctions. Other direct challenges include a Canadian-Indonesian joint venture also involved in developing an offshore Iranian gas field, and a German bank financing an Iranian oil development project. In all cases the respective governments have strongly warned Washington against any possible actions, and the White House has been hesitant to act. (20)

While a strategy of direct confrontation may have helped Iran cope with intensifying U.S. sanctions, it has also forced local development of manufacturing capabilities, with limited international support. The country has in recent years coordinated an effort to develop local infrastructure for supporting the needs of the oil sector requiring roughly $2 billion of annual imports of parts and services.

Iran has set up a series of manufacturing companies that manufacture a wide range of parts such as special pipes,
valves, and gaskets. The technology for manufacturing such products is either developed locally, or obtained through joint ventures with foreign firms. Moreover, for parts which can not be locally produced, sourcing has been systematically diverted away from the West. In this effort, considerable assistance has been obtained from the Chinese and Eastern Europeans, who now account for the bulk of imported supplies in the oil industry. The Chinese also have the advantage of holding licenses for western technology and can therefore provide many of the sophisticated equipment required to build modernized petrochemical plants. (21) The final strategy which has been far less successful, both domestically and internationally for Iran, has been one of reconciliation with the United States. With close to two decades of tensions between the two countries, diplomatic efforts to reopen lines of dialogue have become more evident since a new Iranian administration took over in mid-1997. President Muhammad Khatami has begun to recreate Iran's international image, and has expressed an interest in a potential dialogue with the American people. Although this has helped tone down the position of the White House with respect to Iran (22), internal differences in Tehran on how to approach the West have plagued such an effort. A direct dialogue with the U.S. administration is considered unacceptable by many in Iran, and is therefore unlikely to materialize in the near future.

CONCLUSION

U.S. economic policy toward Iran builds on close to two decades of deep diplomatic tensions between the two countries. The resulting economic sanctions have historically encouraged Iran to develop strategies for diversifying trade routes, finding new economic partners, and reducing dependence on oil export revenues. The effects of Iran's diversification strategy have indeed been unequivocal. In 1974, seven countries accounted for 70% of Iran's imports and exports. Twenty years later--by 1994--a total of 14 countries accounted for 70% of Iran's international trade, and Iran's top seven trading partners accounted for only half of its total imports.

The intensification of trade and investment sanctions since the early 1990s has significantly affected the nature of international competition for Iranian business. The effects of the trade and investment sanctions have, however, been felt more by American companies than non-American firms. This is primarily due to the practical difficulty of enforcing U.S. laws beyond U.S. borders, and as a result, on numerous occasions significant business has been lost to non-American firms, immune to the terms of the sanctions. Boeing, Conoco, and BP America are prime examples.

In 1993, the U.S. administration turned down a request by Boeing to sell Iran civil aircraft needed for expanding Iran Air's level of operations. Up to that point, most of Iran Air's fleet consisted of Boeings, and Iran Air had in the previous year negotiated the purchase of 16 Boeing 737-400's. As a result of the refusal, Boeing lost a $900 million contract, and Iran Air has since purchased aircraft from the European aerospace consortium Air Bus. Similarly, in 1993 BP America had negotiated the sale of a chemical fertilizer plant with Iran. The sale was prohibited by the administration on the grounds that the technology may be of a dual purpose nature, resulting in a $100 million sales loss to BP America.

The most publicized loss regarding sanctions on Iran has been Conoco, a subsidiary of Dupont Corporation. Conoco and the National Iranian Oil Company had in early 1995 agreed to a $600 million contract for developing two off-shore Iranian oil and gas fields. However, Conoco was forced to withdraw from the contract
due to pressure from the administration, and subsequent investment sanctions. This opened the way for France's Total, which has since commenced work on the project. Total has also proceeded to challenge the latest round of investment sanctions by engaging in a separate $2,000 million investment in Iran involving Russian and Malaysian firms.

It is important to acknowledge that the U.S. economic policy on Iran has noticeably limited Iran's access to Western technology, supplies, and financing. The policy, has also contributed to a state of economic hardship, as reflected by high inflation and unemployment rates, and a devaluing Iranian currency. However, what is perhaps most noticeable about the current state of the sanctions is that despite their extreme nature, they have in practice been unable to achieve their primary objective of halting international involvement in Iran's oil industry. Iranian oil industry is in a state of restructuring and development; Iranian oil and gas fields need to be appropriately maintained and developed, and petroleum refining capacity needs to increase in order to keep up with growing local demand. While these projects represent attractive business opportunities, American firms have not been allowed to compete in this market.

Meanwhile, violations of the sanctions by firms from Europe and the Far East have remained unchallenged, primarily due to potential retaliatory measures that could result by punishing violating firms. Therefore, while the existing sanctions have locked out American firms from competing in Iran, they clearly represent significant business opportunities for non-American companies operating in Iran's lucrative oil industry.

*Hooman Estelami is Assistant Professor of Marketing at the Graduate School of Business, Fordham University.

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