



HOUSE OF LORDS

Select Committee on Economic Affairs

---

---

2nd Report of Session 2006–07

# **The Impact of Economic Sanctions**

Volume I: Report

---

Ordered to be printed 24 April 2007 and published 9 May 2007

---

Published by the Authority of the House of Lords

*London* : The Stationery Office Limited  
£price

HL Paper 96-I

### *The Economic Affairs Committee*

The Economic Affairs Committee is appointed by the House of Lords in each session with the orders of reference “to consider economic affairs”.

### *Current Membership*

The members of the Economic Affairs Committee are:

Lord Griffiths of Fforestfach  
Lord Kingsdown  
Lord Lamont of Lerwick  
Lord Lawson of Blaby  
Lord Layard  
Lord Macdonald of Tradeston  
Lord Oakeshott of Seagrove Bay  
Lord Paul  
Lord Sheldon  
Lord Skidelsky  
Lord Turner of Ecchinswell  
Lord Vallance of Tummel  
Lord Wakeham (Chairman)

### *Information about the Committee*

The reports and evidence of the Committee are published by The Stationary Office by Order of the House. All publications of the Committee are available on the internet at:

[http://www.parliament.uk/parliamentary\\_committees/lords\\_economic\\_affairs.cfm](http://www.parliament.uk/parliamentary_committees/lords_economic_affairs.cfm)

Members' interests are available at the Register of Interests:

[http://www.parliament.uk/about\\_lords/register\\_of\\_lords\\_interests.cfm](http://www.parliament.uk/about_lords/register_of_lords_interests.cfm)

### *General Information*

General information about the House of Lords and its Committees, including guidance to witnesses, details of current inquiries and forthcoming meetings is on the internet at:

[http://www.parliament.uk/about\\_lords/about\\_lords.cfm](http://www.parliament.uk/about_lords/about_lords.cfm)

### *Contact Details*

All correspondence should be addressed to the Clerk of the Economic Affairs Committee.

Committee Office, House of Lords, London SW1A 0PW

The telephone number for general inquiries is 020 7219 4568

The Committee's email address is [economicaffairs@parliament.uk](mailto:economicaffairs@parliament.uk)

## CONTENTS

---

	<i>Paragraph</i>	<i>Page</i>
<b>Abstract</b>		5
<b>Chapter 1: Introduction</b>	1	7
<b>Chapter 2: UK Sanctions: Purposes, Principles and Contexts</b>	7	9
Purposes of sanctions	7	9
UK sanctions policy principles	12	10
EU sanctions policy principles	13	10
The UN Context	16	11
The EU Context	19	11
<b>Chapter 3: Comprehensive UN Sanctions—Iraq 1990–2003</b>	25	14
The fall and possible rise of comprehensive sanctions	25	14
Iraq: Extensive compliance despite conflicting objectives	36	16
The human costs	45	19
The overall record of comprehensive sanctions	47	20
<b>Chapter 4: Targeted and General EU Sanctions—Burma</b>	49	21
Sanctions on Burma: General as well as targeted	50	21
An ineffective impasse	53	21
Debating the way forward	60	23
<b>Chapter 5: Targeted Financial Sanctions on Individuals and Groups</b>	62	24
The rapid growth of targeted financial sanctions	62	24
The inadequacy of efforts to improve targeting	64	24
Assessing the effectiveness of targeted financial sanctions	67	25
US extra-territorial sanctions	71	26
<b>Chapter 6: Targeted Commodity Sanctions</b>	76	28
Regulating trade in commodities	76	28
Diamonds, conflict prevention and promotion of good governance	78	28
<b>Chapter 7: UK Sanctions Policy—Principles and Practice</b>	82	30
Hitting the regime rather than the people?	83	30
Exemptions which minimise humanitarian costs?	86	30
Clear and realistic objectives linked to an exit strategy?	92	32
Effective implementation and enforcement?	96	33
Avoidance of unnecessary economic and commercial costs to the UK?	100	34
Success, failure and sanctions	105	34
<b>Chapter 8: Implications for Policy towards North Korea and Iran</b>	111	37
North Korea	112	37
Iran	119	39
Implications for policy towards North Korea and Iran	124	41
<b>Chapter 9: Conclusions and Recommendations</b>	127	42
Comprehensive sanctions	127	42

Targeted and general EU sanctions: The case of Burma	131	42
Targeted financial sanctions	136	43
Targeted commodity sanctions	141	43
Sanctions policy: Principles and practice	142	43
North Korea	151	45
Iran	152	45
Implications for policy towards North Korea and Iran	154	45
<b>Appendix 1: Economic Affairs Committee</b>		<b>46</b>
<b>Appendix 2: List of Witnesses</b>		<b>47</b>
<b>Appendix 3: Call for Evidence</b>		<b>48</b>
<b>Appendix 4: Glossary</b>		<b>50</b>

**NOTE:**

References in the text of the report are as follows:

(Q) refers to a question in oral evidence

(p) refers to a page of written evidence

The Report of the Committee is published in Volume I, HL Paper No. 96-I

The Evidence of the Committee is published in Volume II, HL Paper No. 96-II

## **ABSTRACT**

Economic sanctions used in isolation from other policy instruments are extremely unlikely to force a target to make major policy changes. Even when combined effectively with other foreign policy instruments, sanctions usually play a subordinate role. They may even be counterproductive when a target regime responds by increasing its internal control over resources. Often, greater emphasis on economic, diplomatic and security incentives will be more effective. Nevertheless, economic sanctions can, on occasion, contribute substantially to achieving objectives when combined appropriately with other instruments of foreign policy.

Comprehensive sanctions are likely to result in severe suffering among the general population. Their application would not be compatible with the Government's principle that sanctions should "hit the regime rather than the people".

In the case of Iraq, comprehensive sanctions helped secure major concessions but did so at great human cost.

In the case of Burma, sanctions are said to be targeted but are nevertheless wide enough in their impact to hurt the general population. Yet they have secured no progress towards democratisation or increased respect for human rights. The Government should review current sanctions policy on Burma, to decide whether it is worth continuing.

"Targeted" financial sanctions have been relatively ineffective. They have often been imposed on people and entities selected on non-transparent or dubious grounds. The Government should look for ways to incorporate a proper degree of transparency and due legal process into targeting procedures.

We endorse the condemnation by the EU of the extra-territorial application of US sanctions legislation as a violation of international law. The existing measures available under EU and UK law appear to provide a sufficient legal basis for an effective response to US extra-territoriality. What is required is the political will to address this issue.

On targeted commodity sanctions, including diamonds, the Government should continue to work for improvements in UN monitoring and enforcement capabilities.

The Government should ensure that the UN's humanitarian assessment procedures are applied to any sanctions with which it is involved. It should also provide a public account of the application of the UN guidelines.

Sanctions are often adopted with little sense of how, if at all, the objectives are to be achieved. The Government should ensure that the objectives are always clear and realistic and that an exit strategy is developed before sanctions are imposed.

The Government should be more active in promoting systematic monitoring and independent expert review of sanctions policy. There should also be provision for regular Parliamentary review, so that Parliament can consider how far sanctions are achieving their intended goals.

The costs to British business arising from compliance with UK sanctions policy are relatively minor. They are acceptable to the extent that the sanctions policies themselves are well founded; this is open to question in some cases.

Reliance on sanctions as the main means of resolving the current disputes with North Korea and Iran appears a recipe for failure. We endorse the Government's support for the recent agreement with North Korea and the phased lifting of sanctions as part of that Agreement. On Iran, we urge the Government to make every effort, bilaterally and through the EU, to persuade the US to commit fully to involvement with the EU's proposed Framework Agreement.



# The Impact of Economic Sanctions

## CHAPTER 1: INTRODUCTION

---

1. Although economic sanctions have long been an occasional tool of British foreign policy, recent years have witnessed a significant increase in the use of targeted sanctions, particularly in relation to financial transactions, and there is an active current debate about whether economic sanctions could help to achieve desired aims in relation to Iran, North Korea and, most recently, Sudan. In the light of these developments, and the continued use of sanctions in a variety of circumstances, the Economic Affairs Committee decided to conduct an inquiry into the impact of economic sanctions. The inquiry has taken evidence about past and current experience in relation to sanctions, with a view to determining whether any useful lessons can be learned about the conduct of policy in this area.
2. Our report is concerned with the effectiveness of economic sanctions and the part that they can or should play in supporting British foreign policy. Economic sanctions can be thought of as restrictions on trading, service or financial relations imposed on countries, groups or individuals, with the aim of achieving political objectives. The objectives may be wide-ranging or narrow and the sanctions may be used in conjunction with other tools of foreign policy, including diplomacy, economic or political incentives and the threatened or actual use of force. Sanctions of a non-economic kind may also be imposed, including arms embargoes, restrictions on the use of technologies or equipment, travel bans, and so on.
3. The report focuses on the impact of economic sanctions. Other forms of sanctions are considered only in so far as they are used in combination with economic sanctions, as has been the case with travel sanctions and aid sanctions. By “impact” we mean effectiveness in achieving the desired objectives at an acceptable cost.
4. The House of Commons Select Committee on International Development published in 2000 a report on *The Future of Sanctions*.<sup>1</sup> That report was concerned in particular with the humanitarian costs of sanctions and whether targeted sanctions allow such costs to be avoided. In contrast, the focus of our inquiry has been to determine whether economic sanctions are effective in achieving foreign policy objectives without imposing excessive humanitarian or other costs. We have also had the benefit of an additional six years of sanctions experience to examine.
5. The structure of the report is as follows. The next chapter discusses in more detail the purposes for which sanctions are used, the principles which underpin their use by the United Kingdom (UK) Government, and the United Nations (UN) and European Union (EU) contexts in which UK sanctions are applied. Chapters 3 and 4 consider the lessons to be learned from the use of UN sanctions against Iraq and EU sanctions against Burma. The case of Iraq is considered in detail because it is the last in which

---

<sup>1</sup> International Development Committee, 2nd Report (1999–2000): *The Future of Sanctions* (HC 67)

comprehensive UN sanctions were applied against a country and the experience of applying sanctions against Iraq is widely regarded as having stimulated a shift in policy from general to targeted sanctions. We consider the case of EU sanctions on Burma, partly because it illustrates a number of problems related to the coherence of UK sanctions policy and partly because the UK Government has been pressing for UN sanctions on Burma. Chapters 5 and 6 of the report deal with more recent innovations in sanctions policy, specifically in relation to financial measures targeted on individuals and groups and sanctions targeted at the trade and regulation of particular commodities.

6. The remaining chapters are devoted to general policy issues, and to the cases of North Korea and Iran. In particular, drawing on the evidence from the earlier chapters, the report provides a comparison of the principles and the practice of UK sanctions policy. The report ends with some overall conclusions and recommendations.



## CHAPTER 2: UK SANCTIONS: PURPOSES, PRINCIPLES AND CONTEXTS

---

### Purposes of sanctions

7. Sanctions can be applied for a variety of reasons, including to punish or weaken a target, to signal disapproval, to induce a change in policy, or to bring about regime change. They can be imposed to try to avoid war or to pave the way to war. Domestically, they may be aimed at mollifying domestic pressure groups or giving the public the impression of decisive action but without any expectation that the target will suffer significant costs or change its behaviour. In practice, those who apply the sanctions may have multiple objectives, although one objective may be of over-riding importance. Similarly, the primary objective may be ambitious, such as US unilateral sanctions aimed at inducing a target to end its efforts to acquire weapons of mass destruction, as with Libya in 2003, or they may be relatively minor, as in 1999, with UN sanctions aimed at inducing Libya to hand over for trial two of its citizens suspected of involvement in the bombing of Pan Am flight 103 over Lockerbie. Negotiated regime change is an objective that is pursued relatively rarely, and sanctions tend to be used as part of a package of measures. This was the case in 1994 in South Africa, for instance, when apartheid gave way to majority rule.
8. The UN Security Council imposes mandatory sanctions under articles 39 and 41 of Chapter VII of the UN Charter. Article 41 specifies measures that include “complete or partial interruption of economic relations and of rail, sea, air, postal, telegraphic, radio, and other means of communication, and the severance of diplomatic relations”. Article 39 states that the purpose of such measures is “to maintain or restore international peace and security”.
9. The EU has a much wider range of formal objectives in relation to sanctions than does the UN. Mr Karel Kovanda, of the External Relations Directorate of the European Commission (EC), quoted the EU sanctions principles as follows:
 

“If necessary, the Council will impose autonomous EU sanctions in support of efforts to fight terrorism and the proliferation of weapons of mass destruction ... and ... to uphold respect for human rights, democracy, the rule of law and good governance”.

 He added that:
 

“It does not exclude autonomous sanctions to promote or preserve the European Union or international security, for example, in instances where the UN Security Council, for political reasons which are well known to all of us, might not be able to reach a decision.” (Q 255)
10. In assessing the impact of sanctions, key analytical issues are measuring success and failure and then separating out the role of sanctions from other policy instruments in that outcome. The simplest situation to analyse is when there is a single over-riding and clear policy goal, when the outcome can be characterised neatly as either complete success or complete failure and when policy-makers relied almost exclusively on sanctions in pursuit of that goal.
11. However, the evidence we received indicates that influence attempts involving sanctions do not necessarily conform to that pattern. There can be

multiple, sometimes competing, policy goals being pursued by different actors; success and failure can be a matter of degree; and sanctions are often combined with diplomacy, incentives and threats of force.

### UK sanctions policy principles

12. The FCO emphasised in its evidence the importance of the 1998 Whitehall Review of Sanctions Policy and the principles derived from that review (p 2). In March 1999, the Government reported to Parliament that the guiding principles of sanctions policy were as follows:

“Sanctions should:

- be targeted to hit the regime rather than the people;
- include exemptions to minimise the humanitarian impact on innocent civilians;
- have clear objectives, including well-defined and realistic demands against which compliance can be judged, and a clear exit strategy;
- have effective arrangements for implementation and enforcement by all states, especially neighbouring countries;
- avoid unnecessary adverse impact on UK economic and commercial interests.”<sup>2</sup>

We took evidence to assess whether the Government’s sanctions policy does in practice adhere to these principles.

### EU sanctions policy principles

13. A number of those giving evidence, including Mr Stephen Pattison, Director, International Security, FCO, emphasised the importance of EU sanctions and the statement of principles underpinning EU policy to which the UK subscribes as a Member State (Q 19). These were agreed in 2003 and the latest guidelines were issued in December 2005.<sup>3</sup> In their evidence to us, the EC stated that these public documents:

“... have been effective in improving EU decision-making in sanctions and in increasing consistency of the use and wording of sanctions instruments. They have also been influential beyond the EU, given that they address issues at a considerable level of detail and represent the consensus view of the 25 Member States. Many states either choose to associate themselves with EU sanctions, or at least follow developments in EU sanctions 9.” (p 87)

14. The EU principles emphasise that objectives should be clear and consistent with overall EU strategy and should respect human rights and fundamental freedoms (including due process) and be proportionate to the objective. They should also have clear criteria for selecting and deselecting targeted persons and entities, and have case-by-case humanitarian exemptions. The EU presents its use of sanctions as being part of an integrated and

---

<sup>2</sup> Written answer, House of Commons 15 March 1999—FCO Minister of State Tony Lloyd.

<sup>3</sup> Council of the EU, Guidelines on implementation and evaluation of restrictive measures (sanctions) in the framework of the EU Common Foreign and Security Policy, 8 December 2005.

comprehensive package of measures including diplomacy, incentives and threats of force rather than as alternatives to them.

15. According to the EU principles, sanctions should be reviewed if relevant political circumstances change, should have a review or expiry date, and should be lifted only when the objectives or specified criteria have been fulfilled. As UN Security Council mandatory resolutions are binding, EU implementations of such resolutions do not have an expiry date and humanitarian exemptions do not exceed those granted by the UN. The EU principles are fully compatible with those enunciated by the Government.

### The UN Context

16. We received much evidence emphasising the significance of the UN in relation to UK sanctions policy.<sup>4</sup> By virtue of its position as a permanent member of the Security Council, and its more general commitment to involvement in these issues, the UK has been a major actor in UN sanctions.
17. Up to the 1990s, the Security Council had imposed Chapter VII mandatory sanctions only twice—on Southern Rhodesia in 1966 and South Africa in 1977. Since 1990, the UN has imposed such sanctions on Afghanistan, Angola, Côte d’Ivoire, the Democratic Republic of the Congo (DRC), Ethiopia and Eritrea, Haiti, Iraq, Liberia, Libya, Rwanda, Sierra Leone, Somalia, Sudan, the former Yugoslavia, North Korea and Iran.<sup>5</sup>
18. UN sanctions, economic and/or non-economic, continue to be applied to Côte d’Ivoire, the DRC, Liberia, Rwanda, Sierra Leone, Somalia, North Korea and Iran. Previous measures against Sudan were lifted, but new ones were put in place in 2005. In the case of Iraq, only some prohibitions related to the sale or supply of arms and related material and trade in cultural property remain. Sanctions on Afghanistan were lifted, but those relating to al-Qaeda and the Taliban remain in force. In addition, the Security Council requires all countries to impose financial freezes on suspected terrorists and their supporters, and to impose financial freezes and travel bans on those suspected of involvement in the assassination of former Lebanese Prime Minister Rafik Hariri and the murder of 22 other people in February 2005. Sanctions on Burma are currently being considered by the Security Council.

### The EU Context

19. The EC drew attention to the fact that, in addition to enforcing existing UN mandatory sanctions, the EU has an additional 12 “autonomous” sanctions regimes on non-member states or other actors: 16 of the 21 affect trade in goods and services and/or the free movement of capital (Q 253).<sup>6</sup> This means that the UK, as an EU member state, is routinely involved in sanctions outside the UN framework. In recent years, the Government has not formally used sanctions outside of the framework of EU policy, but there are

---

<sup>4</sup> In addition to written and oral evidence from the Government (*passim*), in particular written and oral evidence from Carne Ross (*passim*), and written evidence from Manuel Bessler (pp 175–176), Rachel Barnes (pp 117–129), Margaret Doxey (pp 138–142), Alex Vines (pp 107–109), Jeremy Carver (pp 129–133) and Kern Alexander (pp 24–29).

<sup>5</sup> Written evidence from Alex Vines (p 108), Kern Alexander (p 25), and Margaret Doxey (pp 138–139).

<sup>6</sup> See also written evidence from Kern Alexander (pp 25–27).

cases, such as in relation to Burma, in which the UK has applied sanctions beyond the agreed EU Common Position. As with the UN, there has been a dramatic increase in the use of sanctions by the EU since 1990, and a number of those giving evidence to the inquiry emphasised the increasing importance of the EU as a sanctioning body.<sup>7</sup>

20. The EU policy principles state that sanctions should normally be aimed at securing a change in policy in line with the EU Common Position agreed on any particular issue as part of EU Common Foreign and Security Policy (CFSP), although they can also be used as a preventative measure against terrorism. However, in many cases of EU autonomous sanctions it does not seem to be the case that the EU is seriously trying to bring about policy change in the target state. Instead, it seems that the EU often uses sanctions to symbolise disapproval. It is plausible that the EU could achieve as much, or more, by a simple public declaration of that disapproval.
21. Lord Renwick argued that “‘slap on the wrist’ sanctions do more harm than good” (Q 278). The danger is that they begin to symbolise weakness if nothing substantial is achieved and, particularly when there is little multilateral support, it may be the country applying the sanctions rather than the target that appears isolated. Policy-makers should therefore be alert to the possibility that the application of symbolic sanctions may undermine their own credibility.
22. In addition, it should not be assumed that symbolic sanctions will necessarily assist the domestic opposition in a target state. This needs to be assessed on a case-by-case basis.
23. Although the EU labels some of its sanctions as “autonomous”, this does not alter the fact that they are unilateral sanctions in the sense that they are not authorised by the UN. In his evidence to us, Dr Kern Alexander, of the Judge Business School at Cambridge University, labelled those sanctions as “unilateral”. He provided a valuable explanation of their legal basis. He explained that:
 

“Member states are also free to adopt their own national sanctions laws against non-EU states insofar as such sanctions do not conflict with express EC policy”. (p 28)

This suggests that the EU and the UK can deploy legal justification for their use of unilateral sanctions. Indeed, Dr Alexander pointed out that the UK did so in relation to Argentina after its invasion of the Falkland Islands in 1982.
24. Mr Jeremy Carver, Head of the Public International Law Group at Clifford Chance, proposed that:
 

“Above all, the Government should seek to ensure that sanctions are adopted only where the circumstances fall within Chapter VII of the UN Charter, and the specific measures adopted can realistically expect to resolve the threat to international peace and security.” (p 133)

---

<sup>7</sup> Principally written evidence from the Council for Arab-British Understanding (pp 133–137) and Kern Alexander (pp 24–29) and oral evidence from Alex Yearsley (Q 156), John Hilary (QQ 194–198) and Joakim Kreutz (QQ 231–250). See also Joakim Kreutz, *Hard Measures By a Soft Power? Sanctions Policy of the European Union*, Bonn International Centre for Conversion, Paper 45, 2005.

This approach would involve an abandonment of the use of economic sanctions by individual states or groups of states for any other purposes. Mr Carver regards this approach as necessary to increase the effectiveness of UN sanctions for their Chapter VII purpose and to avoid the negative consequences arising from the use of sanctions outside the UN framework. While we see such a drastic curtailment of sanctions practice as improbable for the foreseeable future, we note that the Government's support for the use of EU autonomous sanctions is not unchallenged.

### CHAPTER 3: COMPREHENSIVE UN SANCTIONS—IRAQ 1990–2003

#### The fall and possible rise of comprehensive sanctions

25. Comprehensive economic sanctions are those which seek to deny a target state all normal international financial, trade and service interactions except those exempted on humanitarian grounds. The four most prominent cases since 1945 where they have been applied are the sanctions imposed on Rhodesia, South Africa, Yugoslavia, and Iraq. In the first two cases, the object was to bring to an end white minority rule ('regime change')<sup>8</sup>; in the third, to end the fighting in Bosnia; and in the fourth, to secure several major objectives. Rhodesia, Yugoslavia and Iraq were subjected to mandatory UN sanctions, but South Africa was not, except for the mandatory arms embargo imposed in 1977. The case of Iraq involved a complicated and still debated mix of motives discussed below.
26. Before turning to Iraq, we briefly summarise evidence received on the results of comprehensive sanctions imposed on Rhodesia, South Africa, and Yugoslavia.
27. Following the unilateral declaration of independence (UDI) by the white minority regime in Rhodesia on 11 November 1965, Britain imposed an escalating set of economic sanctions, which culminated in a total ban on Rhodesian exports to and imports from British territories, and an embargo on all financial dealings of British subjects with Rhodesia. The Commonwealth and other countries followed Britain's lead. The United States (US) and France imposed oil embargoes in December 1965, and France restricted the imports of tobacco and sugar. The UN voted to impose mandatory sanctions on 16 December 1966, which by 1968 comprised a total ban on Rhodesian trade (except for a few humanitarian items), an embargo on capital dealings, and the severance of all communications. Following the outbreak of guerrilla warfare in 1972, and the collapse of the Portuguese empire in 1975, the white regime of Ian Smith surrendered, and Robert Mugabe became prime minister of an independent Zimbabwe on 18 April 1980. Security Council sanctions were lifted on 21 December 1979.
28. Economic sanctions were not decisive in ending UDI. Rhodesia was able, with difficulty, to adapt its economy to the situation, and to organise "sanctions busting" through South Africa and the Portuguese colonies of Angola and Mozambique. The US also made an exception for imports of chrome ore, because otherwise it would have had to import it from the USSR. Nevertheless, sanctions did play a part in bringing about "regime change". In the particular circumstances of white minority rule, the humanitarian suffering which sanctions caused did not strengthen the legitimacy of the regime. Instead, it caused a sharp escalation in the level of guerrilla warfare. Sanctions combined with intensifying guerrilla warfare eroded white morale, and there was a flight of white settlers after 1975. The withdrawal of South African support for UDI in 1976 was probably decisive.

---

<sup>8</sup> A number of witnesses expressed the view that sanctions contributed substantially to the end of white minority rule in both South Africa and Rhodesia. Written evidence from Margaret Doxey (p 139) and Kern Alexander (p 28). Mr Singleton referred to the importance of sanctions in the South African case. Oral evidence from Alex Singleton (Q 95).

Even if economic sanctions helped to create a situation that eventually ended the rebellion, the ability of 250,000 white settlers to defy the international community for 15 years is hardly striking testimony to their efficacy.

29. Except for a ban on arms sales in 1977, South Africa was never subjected to mandatory UN economic sanctions, but rather to a steadily escalating array of sanctions recommended by the UN and imposed by groups of nations (chiefly the Commonwealth and the EU). According to Dr Kim Howells, Minister of State, FCO:

“Sanctions against South Africa undoubtedly highlighted South Africa’s isolation, and I think that that sense of isolation is ... very important. The idea of being a pariah state somehow tends to focus the mind; at least, it has in some governments. The sanctions increased the cost to South Africa of borrowing money internationally, which was, of course, a factor in their eventual decision to reform, and the gradual lifting of sanctions from 1991 helped to ensure white support for reforms.”  
(Q 286)
30. Economic sanctions did not bring the South African economy to its knees. But the growing isolation of South Africa, of which economic sanctions were one element and the severance of sporting links another, and lack of support for its position in Europe and North America, helped convince the South African government and its domestic supporters that their attempt to maintain white supremacy was ultimately doomed to failure. As Lord Renwick indicated in his evidence, this persuaded President F.W. de Klerk, under strong pressure from the South African business community, to negotiate a peaceful and orderly transfer of power to the ANC through free elections in which people of all races would take part on equal terms (Q 276).
31. In the case of Yugoslavia, the UN Security Council decided to impose a complete economic embargo and blockade on the Federal Republic of Yugoslavia in May 1992, after receiving evidence of “ethnic cleansing” in Bosnia. The sanctions lasted for three and half years, but for much of that period they were very unevenly enforced. Over time, sanctions had a huge impact on Serbia’s economy. Dr Howells said in his evidence: “I think the military action and sanctions against the Bosnian Serbs certainly paved the way for the Dayton negotiations. The sanctions seemed to lever concessions from Milosevic at Dayton.” (Q 286)
32. In our view, the decisive factors in bringing Serbia to the negotiating table at Dayton were the military defeat of Bosnian Serb nationalist forces by a Croatian and Bosnian government ground offensive, supplemented by NATO aerial bombing in August 1995. However, we agree that anxiety to get sanctions lifted was probably the most important motive in persuading President Slobodan Milosevic to negotiate the Dayton accords in 1995 as Croatia had taken all the territory it wanted, the Bosnian government was incapable of fighting on its own and the possibility of renewed NATO aerial bombing was not prominent.
33. The sanctions applied against Iraq in the 1990s represent the last case to date in which comprehensive UN economic sanctions have been applied against a country. We have given prominence to the Iraq case because in evidence it was routinely characterised as pivotal in the evolution of sanctions policy. In particular, the perceived humanitarian costs arising from sanctions on Iraq

are often cited as the key factor driving the move from general to targeted sanctions policy.

34. The experience of comprehensive sanctions on Iraq has led many to argue that they should never be used again. For example, Mr Carne Ross, First Secretary at the UK Permanent Mission to the UN from 1999 to 2003, stated: “I do not think that comprehensive economic sanctions should ever be imposed, on any country, ever again, because of what they did to the Iraqi people” (Q 128). Similarly, Mr Hans von Sponeck, UN Humanitarian Coordinator for Iraq between 1998 and 2000 argued that humanitarian exemptions were sufficient to “limit the severity of the human costs of comprehensive economic sanctions sufficiently to make its use legitimate”. (p 169)
35. Nevertheless, the Government suggests that comprehensive sanctions have worked and could work again in the future. Mr Pattison told us:
- “The trend towards smarter sanctions ... has continued to develop ... That does not mean, I think, that comprehensive sanctions can be completely ruled out. In the British Government in our review of sanctions policy conducted in 1998 and reported to Parliament in 1999, we were very careful not to rule it out.” (Q 3)

Similarly, Dr Kim Howells stated:

“I do not think we can abandon the weapon of comprehensive sanctions because there will be situations in the future, as I suspect there may even be at the moment, where comprehensive sanctions probably could do more good than damage.” (Q 299)

Dr Howells and Mr Pattison both cited the case of Yugoslavia and Dayton discussed above in support of this position. (Q 13, Q 286)

### **Iraq: Extensive compliance despite conflicting objectives**

36. Following the invasion of Kuwait by Iraq, in August 1990, the UN demanded in Security Council Resolution (SCR) 660 that Iraq should withdraw unilaterally and unconditionally, and in SCR 661 it imposed comprehensive sanctions in support of SCR 660. In November 1990, sanctions were supplemented by the threat of force in SCR 678, authorising the use of “all necessary means” to uphold and implement SCR 660. Although the sanctions began to inflict significant costs on the Iraqi economy, and were supplemented by the threat of force, Iraq did not withdraw and a US-led UN coalition finally expelled the Iraqis from Kuwait in February 1991. This episode thus reflected a failure of sanctions and military threats.
37. After the Iraqis had been expelled from Kuwait, the Security Council set out in SCR 687 conditions for lifting sanctions. Under the terms of the resolution, Iraq was required to renounce nuclear, biological and chemical weapons, and ballistic missiles with a range of over 150 km, and co-operate fully on weapons issues with the UN Special Commission on Iraq (UNSCOM) and International Atomic Energy Authority (IAEA) and accept permanent monitoring and verification of its compliance (set out in SCR 715). Iraq was also required to recognize Kuwait and its borders, accept a monitored and demilitarized zone, accept liability for losses and damages caused by the invasion, return property stolen from Kuwait, repatriate



Kuwaiti and other nationals taken prisoner, and renounce terrorism. These were the conditions only for the lifting of sanctions on exports by Iraq and related financial transactions (SCR 687, paragraph 22). The conditions for lifting the sanctions on non-military imports by Iraq were left undefined (SCR 687, paragraph 21).

38. Iraq accepted the establishment of a permanent monitoring and verification system; recognised Kuwait and its borders; accepted the demilitarised zone; paid billions of dollars of compensation for the costs associated with invading Kuwait via a 30% deduction from funds raised by UN-authorized Oil-For-Food (OFF) programme oil sales but without accepting formal liability; returned some of the property it took from Kuwait; and claimed to have repatriated all those it had captured, though some dispute over this remained.<sup>9</sup> **In relation to what was widely seen as the most important issue, Iraq eliminated its Weapons of Mass Destruction (WMD) stocks and production programmes unilaterally in 1991**, although it was not possible to verify fully the regime's claim to have done so until after the invasion.<sup>10</sup> This explains why, as Hans Blix, Director General of the IAEA 1981–1997 and then Executive Chairman of the UN Monitoring Verification and Inspection Commission (UNMOVIC) 2000–2003, stated: “The long period of inspections from 1992 to the end of 1998 had yielded much insight into the Iraqi weapons programs but no significant finds of hidden weapons”.<sup>11</sup> Hence it can be concluded that **Iraq complied with most of what was demanded of it, even though the conditions imposed for the lifting of sanctions were extremely demanding.**
39. The UN became aware in 1992 of the fact of unilateral destruction of WMD. From that point on, the issue for the weapons inspectors was acquiring the documentary and physical evidence necessary to confirm that no hidden capabilities remained.<sup>12</sup> Iraq secretly retained a documentary archive to make reconstituting its WMD programmes easier once sanctions were lifted. A high level defection led to the loss of this archive to UN weapons inspectors in 1995 and continuing Iraqi obstructiveness fuelled suspicions, which turned out to be inaccurate, that they were hiding substantial capabilities. In fact, Iraq's obstructiveness seemed to be influenced by various factors unrelated to hiding forbidden weapons capabilities.<sup>13</sup> The units which had been concealing the archive were also those responsible for presidential security and so Iraq would not permit a full investigation of their activities; and there was a suspicion that the US would be able to prevent the lifting of the sanctions no matter what the regime did. Both of these factors were linked to the fact that successive US administrations had publicly and privately advocated regime change in Iraq, either through a military coup or, in the end, through invasion.

---

<sup>9</sup> See Eric Hoskins, “Humanitarian Impacts of Economic Sanctions and War in Iraq”, “in Thomas G. Weiss, David Cortright, George A. Lopez and Larry Minear (eds), *Political Gain and Civilian Pain* (Lanham, MD: Rowman & Littlefield, 1997).

<sup>10</sup> Scott Ritter, *Iraq Confidential* (London: I.B. Tauris, 2005), esp. pp. 38–42, 111, 289.

<sup>11</sup> Hans Blix, *Disarming Iraq* (London: Bloomsbury, 2004), p. 28. See also p. 29.

<sup>12</sup> Ritter, *Iraq Confidential*.

<sup>13</sup> Iraq Survey Group, *Final Report*, 30 September 2004, Vol. 1, *Strategic Intent*, p. 34; Ritter, *Iraq Confidential*.

40. What brought about this extensive if incomplete Iraqi disarmament and compliance? Mr Singleton, Dr Alexander, Mr Vines and Mr Ross all agreed in their evidence that the economic sanctions caused so much damage to the Iraqi economy that they prevented the revival of Iraq's WMD programmes, with Mr Ross also emphasising the role of the sanctions combined with the arms embargo in limiting Iraq's conventional military capabilities.<sup>14</sup> The US Iraq Survey Group (ISG), which had full access to senior officials and documents captured following the invasion in 2003, concurred with these judgements in placing primary emphasis on the sanctions, their cumulative effects into the mid-1990s and the urgency of the regime's desire to find a way to end them.<sup>15</sup> In its evidence, the Council for Arab British Understanding (CAABU) expressed the view that the sanctions influenced the regime, but saw the timescale of their effects as limited to the first two or three years (pp 133–138). The views of Hans Blix are closer to those of the ISG than CAABU on this issue: "Each time the regime had made what it saw as concessions on the inspection front, it had been in response to the carrot being dangled in front of it: the possibility of an UNSCOM report that disarmament had been achieved, and a resultant lifting of sanctions by the Security Council."<sup>16</sup> The most detailed evidence was provided by Mr Ross. He suggested that "sanctions on Iraq were successful in many significant ways" in making it decide to destroy its WMD and medium-range ballistic missiles, preventing it from rearming significantly with conventional weapons or WMD and forcing it "sporadically" to comply with UN weapons inspections (p 44).
41. Mr Ross suggested that the impact of sanctions in disarming Iraq and keeping it disarmed was not recognised because the real US objective was regime change (Q 133). The US objective of regime change in Iraq became formal and public policy in 1998 once President Bill Clinton signed into law the Iraq Liberation Act passed by the Republican-controlled Congress. However, sanctions were not seen by the US as the means of achieving regime change and so this cannot be treated as a failure of sanctions. The US expected to retain sanctions until the regime changed, with the chosen means being military coup, a technique which failed, and then invasion, which succeeded.<sup>17</sup> Mr Blix stated that Saddam Hussein "may well have come to believe ... that the U.S. would allow sanctions to disappear only if he himself disappeared".<sup>18</sup> If this was the case, then it represented a failure not of economic sanctions but of diplomacy in not persuading him that compliance would be rewarded. Alternatively, it represented a success for US diplomacy in keeping the sanctions in place until he could be removed by other means. In any case, despite the doubts he may have had that compliance would be rewarded, Saddam Hussein still cooperated periodically, at times in the hope that it would, according to Mr Blix.

---

<sup>14</sup> Oral evidence from Alex Singleton (QQ 115–118); written evidence from Kern Alexander (p 25) and Alex Vines (p 108); written and oral evidence from Carne Ross (p 43–47, QQ 123–129).

<sup>15</sup> Iraq Survey Group (ISG), *Final Report*, 30 September 2004, Vol. 1, *Strategic Intent*, pp. 34, 44–45.

<sup>16</sup> Hans Blix, *Disarming Iraq* (London: Bloomsbury, 2005), p. 36.

<sup>17</sup> See Ritter, *Iraq Confidential*, especially pp. 47–76, 127–132, 151–156, 162–170, 219, 274.

<sup>18</sup> Blix, *Disarming Iraq*, p 36.

42. Mr Ross also argued that the sanctions were not “particularly successful in political terms” because, in his view, Iraq could have been contained and coerced into complying more effectively by a greater effort to end its oil exports outside of UN control, backed by threats and use of force; because it took the threat of invasion in 2003 for Iraq to permit the return of UN weapons inspectors after they left in 1998; and because the sanctions hurt the Iraqi people, the reputation of the UK Government and the long-term health of the Iraqi economy (pp 43–47, QQ 129, 154). Also in a critical vein, Dr Alexander emphasised that Saddam Hussein’s intent to revive his WMD remained, and Mr Singleton stated that he thought the sanctions had failed overall (Q 115).
43. The threat of force and its actual use were a constant accompaniment to the sanctions, and consideration needs to be given to its role in generating the concessions made by Iraq. The infrastructural damage caused by the aerial bombing in 1991 was severe. The regime seemed to expect the sanctions to be lifted quickly, but when it realised that this was not the case, the massive economic setback caused by the bombing led to real urgency in its efforts to get the sanctions lifted. Hence the most significant steps in Iraq’s disarmament and cooperation in the early 1990s appear to have been caused by the sanctions and bombing in combination. Going further than this and attaching primary significance to either factor will remain a matter of debate and interpretation.
44. **After this initial period and up to the end of 2002, episodes of Iraqi compliance with UN demands were sometimes related to the prospect of a possible end to sanctions and at others to averting the use of force by the US and the UK.** The credibility of military threats was reinforced by the existence of the no-fly zones in the north and south, periodic aerial and explicit threats.<sup>19</sup> However, the ISG concluded that: “Throughout the 1990s, Saddam ... rated the probability of an invasion [by the US] as very low.”<sup>20</sup> In addition, the bombing campaign of Operation Desert Fox of December 1998, instead of producing more Iraqi cooperation, resulted in Iraq refusing to permit the return of weapons inspectors until November 2002 (the UN had ordered their withdrawal just before Desert Fox). **From late 2002 onwards, Iraqi cooperation was a product of trying to avert the threat of imminent invasion rather than secure the lifting of sanctions.**

### The human costs

45. The primary victim was Iraq’s civilian population, part of which suffered terrible hardship. Efforts to alleviate this through waivers for food and medical supplies, and by allowing Iraq to sell limited quantities of oil to finance the purchase of other such goods, were largely defeated by the Iraqi regime. It inflamed popular feeling within Iraq against the sanctions-imposing powers, elicited humanitarian sympathy around the world, exploited the black market (and probably also manipulated the oil market) for financial gain, and used its control over scarce foreign exchange and other commodities to reward its supporters and so maintain itself in power.

---

<sup>19</sup> Written evidence from Carne Ross (pp 44–47) and oral evidence from Carne Ross (QQ 129–147); Ritter, *Iraq Confidential*, e.g. p. 253.

<sup>20</sup> ISG *Final Report* p. 31.

46. Dr Howells and the FCO emphasised the role of the regime in the suffering of Iraqis in the period of the sanctions, while Mr Ross and Mr von Sponeck both emphasised the severity of the sanctions.<sup>21</sup> A report produced by the Independent Working Group of the Independent Inquiry Committee (otherwise known as the Volcker Commission) concluded that the Iraqi sanctions “led to deprivations of food and medicine, with consequences worsened by damage to infrastructure that was not quickly repaired” but that the “mitigation of these effects by humanitarian relief was partially effective”. It also concluded that “broad sanctions plus relief would always lead to some damage to health and nutrition, and to loss of life”.<sup>22</sup> **It is predictable that sanctions which inflict high economic costs on a country run by a ruthless government are likely to result in severe suffering among the general population even if there are humanitarian exemptions and relief programmes.**

### The overall record of comprehensive sanctions

47. A number of those giving evidence pointed out that sanctions forced the Iraqi population to depend on rations distributed by the government, and that this provided the regime with an instrument of political pressure and control.<sup>23</sup> Several witnesses made the point that sanctions permitted the Iraqi government to avoid blame for economic problems (and the same was said regarding US unilateral sanctions on Cuba). The regime was able to make approximately \$2 billion from abusing the OFF programme by such methods as false pricing and bribes from suppliers, but its main source of income was oil exports outside of UN control which generated a total of around \$12 billion (mostly through trade protocols with Jordan and Turkey).<sup>24</sup> **When economic sanctions are relatively weak in their economic effects, they can have the overall net effect of strengthening the target regime by legitimizing it, by strengthening its control command over resources, or both. Where the economic effects of sanctions are more severe, they can have the effect of weakening the target regime’s overall capabilities to act, especially in foreign policy, but the regime can still turn aspects of sanctions to its advantage and increase its internal control.**
48. In two of the four cases (Rhodesia and South Africa), comprehensive economic sanctions contributed in only a secondary way to achieving the goals set. Force was decisive and sanctions irrelevant to forcing Yugoslavia to the negotiating table, although sanctions were central to ensuring Yugoslavia’s acceptance of the Dayton peace agreement at a time when renewed use of force was improbable. In the case of Iraq, the most important concessions were produced not by sanctions alone but by sanctions and force combined. Overall, comprehensive economic sanctions have not achieved major goals without being combined with or preceded by the threat or use of force and have inflicted considerable harm on civilian populations.

<sup>21</sup> Oral evidence from Kim Howells (QQ 285–287, 291–293); and written evidence from the FCO (p 1), Carne Ross (pp 43–44) and Hans Von Sponeck (pp 168–170).

<sup>22</sup> The Impact of the Oil-For-Food Programme on the Iraqi People, 7 September 2005, p. 189.

<sup>23</sup> Written evidence from Carne Ross (pp 44–45), Jeremy Carver (pp 129–130) and CAABU (pp 134–135); and oral evidence from Lord Renwick (QQ 276–281).

<sup>24</sup> Written evidence from Carne Ross (pp 44–47). As Mr Ross pointed out, the figures were calculated by the Iraq Survey Group and are similar to the estimates arrived at by the Volcker Commission.

## CHAPTER 4: TARGETED AND GENERAL EU SANCTIONS— BURMA

---

49. The sanctions currently applied against Burma by the EU are very different from those that were applied against Iraq. These sanctions are autonomous EU sanctions, applied outside the UN framework, and with little support in the East Asian region. The sanctions regime also involves the use of limited measures, in what is claimed to be a targeted manner, to achieve modest objectives. We have examined this case because it illustrates some of the problems connected with the use of autonomous targeted sanctions.

### Sanctions on Burma: General as well as targeted

50. A popular uprising forced the military to allow a democratic election in 1990 which was won by the National League for Democracy (NLD) with 82% of the vote, but the military have refused to relinquish power and the NLD leader Daw Aung San Suu Kyi has been under house arrest for ten years. The EU imposed sanctions on Burma by means of its Common Position in 1996 and it has renewed them every year since then.<sup>25</sup> The sanctions have been motivated by the regime's refusal to permit the elected government to take power and numerous violations of human rights. The EU sanctions include an arms embargo, a ban on exports of equipment for internal repression, a ban on certain services, freezing of funds and economic resources, restrictions on admission to the EU, a ban on financing of Burmese state-owned companies, suspension of selected aid and development programmes, suspension of high-level bilateral governmental visits, and a reduction of diplomatic relations.
51. The UK Government strongly discourages trade, investment and tourism with Burma, and does not provide export credit guarantees to British exporters. While the UK measures are presented as being in support of the EU Common Position, in practice they go well beyond the letter of the Common Position and exceed the measures taken by many other EU countries, including France, Germany, Spain, Austria and Italy (p 172).
52. **The evidence suggests that UK sanctions on Burma should not be regarded as targeted sanctions, particularly since the policy of discouraging trade, investment and tourism hits the economy generally and consequently hurts the ordinary Burmese people.**

### An ineffective impasse

53. The FCO states that the purpose of the sanctions is: "To put pressure on the regime to work towards democratic change and respect for human rights, through measures which are designed to target those obstructing reform and progress, but ensuring that the ordinary people of Burma suffer as little as possible."<sup>26</sup> The sanctions were intensified in 2004 in order to send "a clear signal to the regime that all EU partners share grave concerns about the situation in Burma and that the EU will continue to press strongly for

---

<sup>25</sup> Council Common Position 2006/318/CFSP, 27 April 2006.

<sup>26</sup> FCO Country Profile, Burma.

progress towards national reconciliation and respect for human rights.”<sup>27</sup> The EU Common Position states that the EU will consider suspending its sanctions and gradually resuming cooperation with Burma in the event of “a substantial improvement in the overall political situation” in Burma.<sup>28</sup>

54. In his evidence, Dr Howells indicated that he thought that “our leverage over the regime is very limited”, that “EU sanctions alone are unlikely to bring about change”, that he was “yet to be convinced” that making Burma a “pariah state” would have any effect, that he felt “deeply uneasy” about the sanctions and that they are “not working very well” (Q 292). **The sanctions on Burma send a signal of disapproval, and show that the UK and the EU are determined to apply pressure for change, but there has been no significant move towards greater democracy or increased respect for human rights. While the UK and the EU desire democratic change in Burma, they do not have any expectation that their current economic sanctions combined with those of other countries, most notably the US, will bring about that change. This contradicts the Government’s principle that sanctions should “have clear objectives, including well-defined and realistic demands against which compliance can be judged, and a clear exit strategy”.**
55. The FCO indicated that it favours UN sanctions on Burma “given that they are broader in scope and impact” (p 4). However, the FCO also suggested that, while it was pressing for them, “there is no prospect of UN sanctions in the near future” (p 4). In his evidence, Dr Howells elaborated that “there are some very powerful countries that do not wish to see sanctions intensified in any shape or form on Burma because they perceive that they need Burmese commodities and natural resources.” (Q 292)
56. The Government has not explained the point of arguing for measures which are very unlikely to be adopted and which command little support in the region. **It would seem that the Government regards the current policy as the best available option, in the sense that it imposes a relatively low cost on the Burmese people and is better than any of the alternatives. Considering the evidence we have received, we are not persuaded on either count.**
57. The FCO argued that: “It is hard to measure any coercive effect these sanctions have on the Burmese regime, since any economic impact is far outweighed by the damage done by the [regime’s] own economic mismanagement” (p 4). However, it seems reasonable to suppose that sanctions which hit the Burmese economy generally will inevitably hurt ordinary Burmese. **We think that the Government should attempt to assess whether humanitarian assistance has helped to compensate for the humanitarian costs arising from the current sanctions against Burma.**
58. The tourism boycott has probably succeeded in discouraging some British tourists from visiting Burma. This represents a cost to the regime in terms of lost tax revenues, but there is also a cost to ordinary Burmese people, who would otherwise have benefited from greater tourism-related activities. The

---

<sup>27</sup> FCO Country Profile, Burma.

<sup>28</sup> Council Common Position 2006/318/CFSP, 27 April 2006, p. 2.

Government has not offered any criteria against which to assess its informal tourism boycott.

59. Although Mr Kovanda told us that all current EU sanctions are targeted, he also noted that there are “restrictions on investment in certain state-owned companies and suspension of co-operation programmes” and that “Most of the sanctions” (and hence not all of them) are directed against members of the regime and their personal assets. He stated that he was not aware of costs to ordinary people “being a significant problem” (Q 268). However, this view does not seem to include an assessment of the opportunity costs of the whole package of measures against Burma. We received evidence from Mr Derek Tonkin, a former British diplomat, who drew attention to measures by the EC which prevent Burma from having duty-free access to EU markets, which it would otherwise have as a “Least Developed Country”, and to the EU’s opposition to the provision of IMF and Asian Development Bank facilities to Burma (pp 170–175). In our view, the impact of these measures would appear to be general rather than targeted, which suggests that some of the current EU sanctions should be regarded as general rather than targeted. Mr Tonkin also suggested that EU and UK policy has encouraged the US to persist with general sanctions, and it is these which are imposing the greatest humanitarian costs on ordinary Burmese people.

### Debating the way forward

60. Daw Aung San Suu Kyi and the NLD are in favour of the current sanctions. However, Mr Tonkin in his evidence argued that the NLD’s support for economic sanctions is probably not representative of most ordinary Burmese and he proposed that the Government and the EU should give more weight to the views of those who are critical of sanctions on Burma (pp 170–175).<sup>29</sup> Mr Alex Singleton suggested that Burma might become less repressive, and gradual reform might occur, if there was a process of economic engagement that led to increased prosperity and the development of a middle class (Q 109). Mr Kovanda noted that current EU sanctions do not prevent engagement via programmes related to health, education and poverty alleviation, and the EU provides significant aid in these areas (Q 270).
61. Although the FCO details relevant debates and statements on its website,<sup>30</sup> **we are concerned that the Government and EU have not published any substantial analysis of the sanctions on Burma. We suggest that Government should undertake an urgent enquiry into sanctions policy on Burma, with a view to deciding whether it is worth continuing with it.**

---

<sup>29</sup> See also Thant Myint-U, ‘What to Do about Burma’, *London Review of Books*, vol. 29, no. 3, 8 February 2007.

<sup>30</sup> FCO Country Profile, Burma.

## CHAPTER 5: TARGETED FINANCIAL SANCTIONS ON INDIVIDUALS AND GROUPS

---

### The rapid growth of targeted financial sanctions

62. Targeted financial sanctions are directed at named private individuals, non-state actors (political, business and front organisations) and state officials. In contrast, financial sanctions on an entire country fall into the category of general sanctions. Sanctions aimed at blacklisting particular state banks or private banks providing financial services to states are sometimes called targeted sanctions: notable recent examples have involved North Korea and Iran. However, their wider economic impact (especially when they are aimed at discouraging the global financial sector more generally from working with the target state) leads us to categorise them as general rather than targeted sanctions. The United States and the EU have extensive lists of targets, as does the UN Security Council's Counter-Terrorism Committee. Mr Kovanda indicated in evidence that there are approximately 1,050 individuals and around 430 entities, groups or companies on the EU list of those subject to financial sanctions for a total of some 1,480, with half of that figure drawn from the UN list (Q 253).<sup>31</sup>
63. The costs to a target of financial sanctions include not only the amount of money frozen but also the opportunity cost associated with the prohibition of financial transactions. The former is easily quantifiable, and has turned out in most cases to be small in relation to the probable resources of non-state targets. The costs arising from the prohibition of financial transactions are almost impossible to quantify, but they are likely to be much larger than those associated with freezing funds, because the flows of funds through accounts over time are much greater in value than the total amount held in an account at any particular time.

### The inadequacy of efforts to improve targeting

64. There are numerous studies of the legal, technical, political, economic and normative issues related to the imposition and administration of asset freezes and travel bans on named individuals and non-state entities.<sup>32</sup> We received a great deal of evidence on the need for improvements to financial sanctions targeted on individuals and entities and on how improvements might be secured.<sup>33</sup> We note that just because financial sanctions are labelled as targeted, this does not necessarily mean that they are hitting their targets,

---

<sup>31</sup> However, the following EU list contained 3,603 entries on 2 November 2006: "Electronic List of Persons and Entities Subject to Financial Sanctions On the Day 25/10/2006", accessed 2 November 2006.

<sup>32</sup> For example: Peter L Fitzgerald, 'Managing "Smart Sanctions" Against Terrorism Wisely', *New England Law Review*, vol. 36, no. 4 (2003), pp. 957–983), Watson Institute Targeted Sanctions Project, *Strengthening Targeted Sanctions Through Fair and Clear Procedures*, 30 March 2006, supported by the governments of Switzerland, Germany and Sweden; and Centre on Global Counter-Terrorism Cooperation, *Report on Standards and Best Practices for Improving States' Implementation of UN Security Council Counter-Terrorism Mandates*, September 2006, prepared for The Netherlands Ministry of Foreign Affairs.

<sup>33</sup> Principally written evidence from the FCO (pp. 1–12), Peter Fitzgerald (passim), Rachel Barnes (passim), Jeremy Carver (passim), the European Banking Federation (passim), British Bankers' Association (passim) and HSBC (passim).



and every effort should be made to reduce the number of cases in which asset freezes and financial restrictions are wrongly applied and to improve humanitarian exemptions and rights of appeal.

65. There are several high-profile cases in which individuals appear to have been wrongly targeted. Professor Peter Fitzgerald, of the Stetson College of Law in Florida, informed us of the case of Somali-born Swedish national Ahmed Ali Yusuf (p 155). He was blacklisted and his assets were frozen by the EU in November 2001, because of his inclusion on a UN list at the request of the US authorities. Despite representations from the Government of Sweden, the US refused to reveal the basis for the blacklisting of Mr Yusuf and it took until August 2006 for the US to de-list him.
66. The evidence we received indicates that, due to the interdependence of the EU, UN and US lists, UK and EU citizens are almost certainly affected by the deficiencies in and the excessive secrecy surrounding the US financial sanctions list. The FCO emphasised the legal processes available through the European Court of First Instance and the European Court of Justice (p 8). However, this does not overcome US refusal to justify its decisions and the reluctance of the courts to act in this realm. Professor Fitzgerald emphasised the following points with regard to Mr Yusuf and EU citizens more generally:

“even if the practical and procedural hurdles to judicial review are overcome ... the deference given to the exercise of executive authority in the area ... of foreign policy combined with the traditional regard for sanctions as temporary measures is likely to preclude a re-examination of the blacklisting action. As a result, unless the sanctions programs themselves provide for a review mechanism, these programs are effectively devoid of the procedural and substantive due process protections that would be associated with ... similar actions if they were taken pursuant to civil or criminal law.” (p 156)

**In our view, efforts to improve targeting and de-listing procedures are inadequate. The existing procedures appear to violate EU sanctions principles, which emphasise that there should be due process and clear criteria for the listing and de-listing of individuals. We urge the Government to look for ways in which proper degrees of transparency and due legal process can be incorporated into targeting procedures.**

### **Assessing the effectiveness of targeted financial sanctions**

67. In contrast to the literature on targeting procedures, there is a dearth of assessments of the effectiveness of targeted financial sanctions in achieving their stated objectives. Dr Colin Rowat, of the University of Birmingham, referred in his evidence to “a lack of evidence about very basic aspects of the [effectiveness of] targeted sanctions”. He quoted Mr Anthonius de Vries, the EU’s sanctions coordinator in the late 1990s, who wrote in 2002 that evidence of their effectiveness is “unavailable” (p 166).
68. One of the objectives of targeted financial sanctions is to confiscate or freeze existing assets of targets before they can move them. This appears usually to meet with almost negligible success. Targeted individuals or organisations can easily anticipate or respond to financial sanctions by the use of false names, collaborators and alternative front organisations. The FCO reported in their evidence that the UK had frozen the following sums of named

individuals and entities of the following countries in support of EU and UN sanctions: Burma £3,500, Liberia £267,000 and Zimbabwe £160,000. It also reported that it had frozen £27,000 in relation to terrorism and \$628,000 in relation to the al-Qaeda, the Taliban and their associates (pp 5–6). **The evidence suggests that the amounts of money frozen are so small, both in absolute terms and relative to the probable resources of the targets, that it is doubtful whether asset freezes are effective as a means of inhibiting or changing the behaviour of those who are targeted.**

69. Although it may not be possible to quantify the resources that are denied by a freeze on transactions, it is clear that the effectiveness of the action depends on the quality of intelligence and the identification of front organisations and collaborators. Particularly in view of the problematic management of lists suggested by the evidence, we conclude that, **in the context of the technology of modern banking and the networks of informal banking based in the Middle East and Asia, “targeted” financial sanctions are likely to hit few targets. While this does not mean that they should be abandoned, such sanctions will at best be a secondary tool for action against terrorists. They may however be effective, even if they impose few costs, when the target wishes to avoid the stigma of illegitimacy.**
70. Mr Vines argued that the key to the effective use of targeted financial sanctions is high-quality information on very small numbers of people. He gave an example of the effective use by the UN of such measures combined with a travel ban:

“In early 2006 in Côte d’Ivoire the imposition of targeted sanctions on three individuals had a calming effect on others and there was a noticeable decline in hate speech for some six months”. (p 109)

Dr Howells suggested that “they can be disruptive, and in individuals they highlight the personal cost that is involved”. He also indicated that there are companies in Colombia which are very concerned not to be blacklisted by the US (Q 294). We agree that salutary effects are possible, but only for targets who seek to be public and legitimate. Others are likely to experience targeted financial sanctions as a minor inconvenience at worst.

### **US extra-territorial sanctions**

71. Although we are primarily concerned with the UN and EU contexts of UK sanctions policy, we note that there has been an increasing tendency for the US to apply its own legislation in an extra-territorial manner and that this has potential consequences for UK citizens and businesses. This problem is particularly pertinent in the context of targeted financial sanctions, which is the area in which sanctions policy is developing most actively.
72. The Confederation of British Industry (CBI) expressed concern about the USA PATRIOT Act of 2001 due to its assertion of the right of US authorities to “seize funds in non-US banks” (p 72). The Act states that:

“For the purpose of forfeiture ... if funds are deposited into an account at a foreign bank, and that bank has an interbank account in the United States with a covered financial institution ... the funds shall be deemed

to have been deposited into the interbank account in the United States”.<sup>34</sup>

Mr John Cridland of the CBI gave evidence on US extra-territorial sanctions, including the extradition of British business people to stand trial in the US:

“There are indeed practical implications and those are significant but it is the principle that business in Britain finds offensive; that the US administration should seek to apply through congressional law requirements on non-US companies operating in third countries outside the US administration.” (Q 224)

Mr Cridland expressed the view that such sanctions “have been policed by the US authorities in quite a sensitive way”, reflecting strong views in Congress and the executive seeking to moderate their effects, especially in relation to companies from friendly countries. Nevertheless, he said that extra-territoriality is “a strong concern” among business people, and Mr Gary Campkin, also of the CBI, thought that US extra-territorial application of its sanctions legislation was increasing. (Q 224)

73. **While recognising the urgent need to take vigorous action in response to the terrorist threats facing the EU and the US, we endorse the condemnation by the EU of the extra-territorial application of US sanctions legislation as a violation of international law.**<sup>35</sup> The question that follows is whether sufficient action is being taken to counter this practice.
74. The EU’s Council Regulation 2271/96, or “Blocking Statute”, as it is known, passed in November 1996, requires those affected by the extra-territorial application of sanctions to notify the Commission within 30 days and not to cooperate with them actively or by deliberate omission or through a subsidiary or intermediary.<sup>36</sup> However, those affected can be authorised to comply if non-compliance would seriously damage their interests or those of the EU. The Blocking Statute indicates that those affected are entitled to claim damages from those applying extra-territorial sanctions. It makes specific reference to US sanctions legislation, including the Cuban Liberty and Democratic Solidarity Act of 1996, and the Iran and Libya Sanctions Act of 1996. Prior to the passage of the EU’s Blocking Statute, the UK enacted an Order under the Protecting of Trading Interests Act (PTIA) of 1980 which prohibited UK companies and nationals from complying with US extra-territorial sanctions. (p 6, p 131)
75. **The existing measures available under EU and UK law appear to us to provide a sufficient legal basis for an effective response to US extra-territoriality: what is required is the political will to address this issue.**

---

<sup>34</sup> US Senate, *Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA PATRIOT ACT)* Act of 2001, HR 3162, 24 October 2001, Section 319.

<sup>35</sup> Council of the EU, *Guidelines*, p. 16.

<sup>36</sup> Council Regulation (EC) No 2271/96, 22 November 1996.

## CHAPTER 6: TARGETED COMMODITY SANCTIONS

---

### Regulating trade in commodities

76. Trade sanctions targeted at particular commodities, such as oil, are not new. What has changed is that they are now aimed at regulating trade in specific commodities to ensure that the financial benefits do not fall into the hands of parties deemed to be illegitimate, and in particular of those engaged in armed conflict. The two areas of focus thus far have been diamonds and timber, which are considered the principal conflict resources. Sanctions in this area are usually applied in combination with arms embargoes, travel bans on named individuals, and financial sanctions on named individuals and entities.
77. Although we received some evidence in relation to timber sanctions,<sup>37</sup> we have concentrated on the case of diamonds because they have been the subject of more substantial targeted sanctions efforts and are therefore more significant for our inquiry.

### Diamonds, conflict prevention and promotion of good governance

78. In the case of diamonds, the UN Security Council has for some time imposed sanctions to prevent rebel groups (in countries such as Angola, Sierra Leone and Liberia) from obtaining funds from the mining and sale of rough diamonds to buy arms and finance insurgency against legitimate governments. The Kimberley Process Certification Scheme established in 2002 includes all of the countries involved in the production, trade and manufacture of diamonds and effectively works more broadly to prevent diamond smuggling regardless of motive. Member states which do not have acceptable certification processes may have their membership suspended.
79. Mr Alex Yearsley of the NGO Global Witness took the view that there has been a good level of coordination between the UK, the EU and the UN over the imposition of sanctions on diamonds, but there were still problems with the monitoring and enforcement of policy (Q 156). The general thrust of Mr Yearsley's evidence was to suggest that the Kimberley Process had been effective in denying some funds to rebel groups, but that enforcement procedures needed to be tightened to prevent the significant evasions that are known to occur. Asked about the general conclusions to be drawn about the circumstances in which commodity sanctions are likely to be successful, Mr Yearsley pointed to the need for the source of the commodity to be readily identifiable. On the monitoring and implementation of sanctions, he told us:

“I would say the most general conclusion to be drawn is that ... there can be successes if it is effectively monitored and implemented. The majority of the commodities sanctions were never really effectively implemented or monitored, especially with regard to the diamonds ... You need to fund the enforcement mechanisms effectively. There need

---

<sup>37</sup> In particular, oral evidence from Alex Vines (Q 173) and Alex Yearsley (Q 315). See also Global Witness, *Cautiously Optimistic: The Case for Maintaining Sanctions in Liberia*, June 2006; Global Witness, 'United Nations Security Council Lifts Liberia Timber Sanctions Despite Insufficient Reform of the Industry', Press Release, 22 June 2006.

to be dedicated people on this full time. The Foreign Office have a proposal for a delegated team within the United Nations that will permanently look at the various sanctions regimes and the trade in conflict resources. At the moment this is still being debated, but every time you appoint a new expert panel, you are repeating the work ... and you waste a considerable amount of time". (Q 186)

Mr Vines also commented on this subject (Q 315). He suggested that the Kimberley Process had contributed to a reduction in the availability of funds for insurgent groups, but that a point had now been reached where it was necessary to find ways to strengthen the controls.

80. On the question of whether the Secretary-General could divert more of the UN's budget to the effective monitoring and enforcement of commodity sanctions, Mr Yearsley suggested that this would be a good idea, but he did not know whether it would be possible (Q 191). Professor Doxey suggested:

"The Interlaken and Bonn-Berlin reports, in common with many other studies, recommend strengthening the UN's monitoring and enforcement capabilities. In common with most proposals for UN reform this is unlikely ... The United States is hostile to the UN; nor do other powers favour the delegation of national responsibilities. The idea of a permanent sanctions unit in the Secretariat has not found favour which means that improved procedures are the most that can be hoped for and in recent years there has been some useful progress on that front". (p 141)

81. **In relation to targeted commodity sanctions, including diamonds, we urge the Government to continue to work for improvements in UN monitoring and enforcement capabilities and we support the view that a permanent UN team should be established to assess trade in conflict commodities and the value of sanctions in relation to them.**

## CHAPTER 7: UK SANCTIONS POLICY—PRINCIPLES AND PRACTICE

---

82. In view of the importance the Government attaches to the policy principles announced in 1999, it is appropriate to use the findings of our inquiry to assess the relationship between the stated principles and the practice of UK sanctions policy. The guiding principles are that sanctions should:
- hit the regime rather than the people
  - have exemptions which minimise their humanitarian costs
  - have clear and realistic objectives linked to an exit strategy
  - be accompanied by effective implementation and enforcement
  - avoid unnecessary economic and commercial costs to the UK.

### Hitting the regime rather than the people?

83. There may be occasions when comprehensive (rather than targeted) sanctions may be more effective, but all the evidence suggests that comprehensive sanctions are likely to have significant humanitarian costs. The experience from Iraq in the 1990s strongly supports this view. Burma also represents a case in which the application of general as well as targeted sanctions has almost certainly imposed costs on the general population.
84. **Targeted financial sanctions have been less effective than is sometimes suggested. They have been imposed on people and entities selected on non-transparent or dubious grounds; they have hit few targets and not hit them hard.**
85. The evidence presented earlier suggests that the Government has retained the option of applying comprehensive sanctions and appears to believe that they can be effective in achieving political objectives without imposing unacceptable humanitarian costs. This view contrasts with the widespread belief that the severe humanitarian costs of the sanctions on Iraq effectively ended the possibility of using comprehensive sanctions and ushered in a new era of targeted sanctions. It also contradicts the Government's policy principle that sanctions should hit the regime rather than the people. **Even if it is regarded as necessary to retain the option of comprehensive sanctions, it should be recognised that this is not compatible with the claim that UK sanctions should hit the regime rather than the people, and we are not persuaded that humanitarian exemptions can adequately solve the problem.**

### Exemptions which minimise humanitarian costs?

86. The principle of having exemptions that minimise the humanitarian costs of sanctions is directly related to the first principle cited above. Mr Stephen Pattison told us:

“Once the sanctions are implemented we would look very carefully at the humanitarian impact ... [T]hese days all [UN] sanctions are subject to careful periodic review at the Security Council, drawing on information provided by monitors both within and outside the UN, to

make sure that the sanctions are not causing adverse humanitarian or other unintended impacts.” (Q 8)

In contrast, Mr Vines expressed the view that humanitarian monitoring of UN sanctions after they are imposed is inadequate:

“... from the UN aspect, one does not see a proper needs assessment analysis of the actual impact of a sanction, especially an economic sanction. There has in the last few years been some movement towards humanitarian impact, but this is patchy at best, and certainly there is not any ongoing monitoring throughout the sanctions regime of the effectiveness.” (Q 307)

87. Even if there is an expectation of low humanitarian costs, a formal assessment, however brief, should still be required. Indeed, a sanctions regime becomes much more defensible if those imposing it can point to independent assessments which show that humanitarian costs are likely to be minor. Mr Pattison in effect suggested that the UN is committed to guaranteeing that its sanctions will have no adverse humanitarian or other unintended impacts. But this would effectively rule out all but the narrowest of targeted sanctions, and we are not aware of any such commitment. Furthermore, such a commitment is not UK Government policy or the policy of the EU.
88. The FCO stated that: “With the trend towards more targeted measures, the humanitarian impact of ... sanctions has been minimised” (p 2). Mr Pattison added that: “Certainly I am not aware of any criticism of the current regimes on the grounds that they are having adverse humanitarian consequences that were unforeseen.” (Q 20)

The EC was a little more equivocal in its evidence, but was still quite confident:

“concerns about negative humanitarian impact of sanctions are much reduced compared to the early 1990s since currently all [EU] financial and economic sanctions are targeted at specific individuals and entities or apply to well-defined commodities and services ... [and there] are exemptions to all such sanctions ... though the EU does not target innocent civilian populations and third parties, negative consequences to such groups cannot be entirely excluded”. (p 87)

89. It seems plausible to argue that financial sanctions targeted at named individuals or non-state entities such as terrorist groups will have negligible humanitarian costs. The claim is less persuasive, however, in relation to the targeting of commodities and services. These are more akin to general sanctions, in the sense that they hit the economy as a whole and therefore the people who rely on it. Substantial humanitarian costs to the general population are likely to be avoided only if the commodities or services targeted are not particularly important or if the sanctions are applied with great restraint. Certainly, there is nothing inherent in the targeting of specific commodities or services that ensures the avoidance of significant humanitarian costs.
90. Part of the problem lies in the notion of humanitarian costs being “minimised”. At one level, this appears reassuring, particularly if minimised is interpreted as meaning “minimal”. A more exact interpretation of minimised, however, is that it means “as low as possible”. “Low” in this

context can include “very high” and what is regarded as “possible” can easily be subordinated to a variety of political objectives.

91. **The UN has developed systematic technical guidelines for evaluating the humanitarian implications of sanctions before, during and after their imposition, and also for mitigating their effects.<sup>38</sup> The Government should ensure the application of the UN’s humanitarian assessment procedures to any sanctions with which it is involved, especially those which damage the target country’s economy in a general way. It should also provide a public account of the application of the UN guidelines.**

**Clear and realistic objectives linked to an exit strategy?**

92. A number of those who gave evidence emphasised that whenever possible, attempts should be made to achieve desired policy objectives using the threat of sanctions, before they are formally imposed, particularly when the threat can be made implicitly or privately.<sup>39</sup> If the threat can be made privately, it may help the target to give way without loss of face.
93. The FCO told us that, before sanctions are imposed, it looks carefully at their anticipated enforceability, humanitarian costs, benefits to the population of the target country, costs to British industry and the likelihood that they will achieve their objectives (Q 287). In addition to coordination within Whitehall, the FCO emphasised the importance of the UN’s own planning capabilities and gave as an example the UN’s assessment of a timber embargo on Liberia before it was imposed. This suggests that the fundamentals are in place for proper pre-sanctions planning.
94. We are not convinced, however, that pre-sanctions planning is as systematic and extensive as the Government suggests. For example, Mr Vines, with five years of field experience as a sanctions inspector, told us that sanctions are “often imposed in an *ad hoc* fashion in a rush.” (Q 307)
95. **We are sensitive to the demands of policy-making and the reality that events can develop so rapidly that decisions must at times be made reactively. Nevertheless, we would argue that such reasons do not normally justify the rushed adoption of sanctions. If sanctions are, nevertheless, imposed without proper advance planning, they should certainly be followed by proper monitoring and by the development of an exit strategy. In our view, the Government has an incomplete commitment to the principle that objectives should be clear and realistic and that an exit strategy should be developed before sanctions are imposed. It repeatedly adopts sanctions with little sense of whether the objectives can be achieved or of how sanctions can contribute to the achievement of those objectives.**

---

<sup>38</sup> Manuel Bessler, Richard Garfield and Richard McHugh, *Sanctions Assessment Handbook: Assessing the Humanitarian Impact of Sanctions and Field Guidelines for Assessing the Humanitarian Impact of Sanctions*.

<sup>39</sup> Oral evidence from Jakob Kreutz (Q 241), Kim Howells (Q 295) and Alex Vines (Q 311); written evidence from Alex Vines (pp 108–109). See also Drezner, *Sanctions Paradox* and Daniel W. Drezner, ‘The Hidden Hand of Economic Coercion’, *International Organization*, vol. 57 (Summer 2003), pp. 643–659.



### Effective implementation and enforcement?

96. We applaud the Government's track record of being at the forefront of developing procedures for the effective implementation and enforcement of sanctions. The main problem in this area is the limited cooperation the Government manages to secure from other governments, either because they lack the resources or political will or because they disagree with the sanctions policy promoted by the Government.
97. A further limitation to the effective implementation and enforcement of sanctions is that there is often insufficient monitoring and inadequate policy review. As Mr Vines, Chair of the UN Expert Group on Côte d'Ivoire, noted:

“... the sorts of reports that sanctions monitors like myself produce, including commenting on the financial field, have no independent appraisal. The only appraisal or assessment of our work that takes place is the politics within the Security Council committees, the sanctions committees, and those are determined from home capitals, be that London, Moscow, Washington or wherever, not necessarily analytically accurate in their assessment ... This is an area where there is a tremendous need for a more systematic monitoring.” (Q 307)

If too many sanctions are imposed, efforts are more likely to be dissipated and success is less likely. Since resources and political will are limited, they should be conserved for the selective use of sanctions. In his evidence, Mr Vines expressed concern at the “inflationary use of sanctions” by the UN and argued against the use of sanctions for symbolic purposes or when they had little chance of success because in both cases he believed that they undermine the credibility of the UN system (Q 314, p 109). In some cases, no serious effort was made to implement the sanctions after the passing of the relevant Security Council resolutions. We welcome the December 2006 report of the Informal Working Group of the Security Council on improving sanctions design, implementation and follow-up, but would stress that such technical proposals will be of no value without the political will to only impose sanctions which conform to them.<sup>40</sup>

98. **Sanctions policy is more likely to be effective if it incorporates an appropriate system of monitoring and control, which would normally require the establishment of a permanent expert staff.** The evidence we took indicates that there is some movement in the direction of permanent staffing at the UN, but too much work in this area is still undertaken on an ad hoc basis (QQ 191, 313). In this context, it would of course be desirable for the expertise of the monitoring and enforcement staff to be as wide-ranging as possible and to include legal and regional expertise. In our view, monitoring and enforcement would also benefit from greater cooperation with relevant NGOs. National and international organisations for the monitoring and enforcement of sanctions are almost always short of resources and one way to supplement those resources is to cooperate with NGOs such as Global Witness, which undertake analytical and practical work of high quality. We would qualify this recommendation by noting that

---

<sup>40</sup> Report of the Informal Working Group of the Security Council on General Issues of Sanctions, 18 December 2006, S/2006/1997.

there are risks associated with this strategy, particularly for the NGOs, who could come to be regarded by target countries as “political” rather than “humanitarian” organisations. This suggests that considerable care would need to be exercised in formulating an appropriate NGO involvement.

99. **We recommend that the Government should be more active in promoting systematic monitoring and independent expert review of sanctions policy. We also suggest that there should be provision for regular Parliamentary review of sanctions so that Parliament can consider whether sanctions are achieving their intended goals or whether policy should be amended.**

#### Avoidance of unnecessary economic and commercial costs to the UK?

100. In assessing the impact of economic sanctions, we were interested in determining whether sanctions regimes typically generate significant costs for businesses and the UK economy more generally, and whether, in line with the Government’s sanctions policy principles, such costs are unavoidable.
101. The CBI told us that general sanctions regimes in the past, for instance in relation to South Africa, may have imposed significant costs on business, but the current situation is that CBI members do not feel that targeted sanctions are imposing any large or disproportionate costs on their activities (Q 214).
102. Evidence on the compliance costs associated with financial sanctions was also received from the British Bankers’ Association. This evidence pointed to the technical and information management challenges associated with the identification of targeted individuals. They also ventured the view that: “policy makers do not take sufficiently into account the practical and regulatory costs of applying new measures” (p 116). However, in relation to the practicality and administrative burdens associated with targeted financial sanctions, the Government told us that it intends to publish a simplification plan (p 9). We regard the principle of the simplification plan for sanctions implementation as a positive development and look forward to its publication in due course.
103. The Government does not carry out any assessment of the impact on the economy arising from the imposition of sanctions, but is committed to doing so in relation to comprehensive sanctions (p 10).
104. **The direct costs to British business arising from compliance with UK sanctions policy are minor. The opportunity costs will be more substantial but more difficult to quantify. The costs are acceptable to the extent that the sanctions policies themselves are well founded, something that is open to question in some of the cases we have considered.**

#### Success, failure and sanctions

105. The view that economic sanctions are almost always ineffective was expressed by Mr Carver, who referred to “the ineffectiveness of almost all sanctions adopted by States, at least over the past 50 years” (p 130). He attributed this to a failure to distinguish clearly between UN sanctions for the protection and restoration of international peace and security, and unilateral or coalition sanctions as acts of war. He suggested: “Sanctions could become an effective instrument to achieve the objectives set out in Chapter VII of the

UN Charter” if this distinction was adhered to and non-UN sanctions abandoned. (p 130)

106. In contrast to Mr Carver’s near-unequivocal view that economic sanctions do not work, Professor Michael Malloy of the University of the Pacific told us in written evidence:

“... in the most successful episodes, sanctions are not applied sequentially, with other responses to be triggered only after sanctions have failed to achieve the policy objective. Rather, sanctions are best applied *en suite*, along with all other appropriate available responses ... Based on available empirical data, the relatively most successful sanctions programs appear to be those that apply a wide range of sanctions, rigorously and in coordination with a range of other seriously initiated foreign policy measures.” (p 163)

Professor Malloy also stated:

“Economic sanctions themselves are purely instrumental, but they are not themselves the embodiment of policy. Sanctions will have whatever instrumental ‘effect’ the circumstances of their use will allow, but it is overarching policy—foreign and/or domestic—that should be judged in terms of its effectiveness, not sanctions.” (p 163)

107. In similar vein, Mr Vines concluded: “Sanctions are more successful if assessed as part of a wider diplomatic package”. He added: “sanctions which are part of a whole range of policies are more successful” (p 108 Q 93). Witnesses involved with the policy process expressed the same view. Mr Kovanda argued that, in the cases of South Africa, Libya and former Yugoslavia, “sanctions have achieved their objective, together with other instruments of policy” (Q 258). According to Mr Pattison, “sanctions are most effective when they are not imposed in isolation” (Q 4). This evidence vindicates Lord Renwick’s view that:

“policy-making in this area has improved ... most important, we no longer make such ambitious claims for sanctions policies. We no longer claim that, of themselves, they are likely to solve or cure the problem.” (Q 276)

108. Dr Colin Rowat of the University of Birmingham and Mr Singleton drew our attention to the study by Professor Gary Hufbauer, and others of 116 “major” cases of economic sanctions between 1914 and 1990 (p 163, Q 90). Professor Hufbauer concluded that success was achieved on the main goals with economic sanctions contributing substantially in 34% of cases, with a decline in the success rate to 24% from the 1970s onwards. Dr Rowat noted that a follow-up study of a further 50 cases of economic sanctions in the 1990s found a similar success rate.
109. Overall, while there was disagreement over the value of sanctions in particular cases, the near-consensus, which we endorse, was that **economic sanctions used in isolation from other policy instruments are extremely unlikely to force a target to make major policy changes, especially where relations between the states involved are hostile more generally**. An emphasis on economic sanctions will usually be ineffective and indeed counter-productive for inducing major policy changes by a target state which is seeking security reassurance and economic incentives or which sees its current policy as a vital interest: this is illustrated

by the failure to make substantial progress with Iran. **Even when economic sanctions are combined effectively with other foreign policy instruments, on most occasions they play a subordinate role to those other instruments. Economic sanctions can be counter-productive in a variety of ways, including when more vigorous coercion in the form of force is needed but is forestalled by those making inflated claims for the value of sanctions as an alternative. Sanctions may also be counter-productive when what is required is a much greater emphasis on economic, diplomatic and security incentives. When the Government's goal is to symbolise disapproval, measures other than economic sanctions should be used wherever possible. Furthermore, when the use of economic sanctions for this purpose is proposed, serious consideration should be given to the possibility that their overall effect will be counter-productive, even in symbolic terms.**

110. **Nevertheless, economic sanctions can, on occasion, contribute substantially to achieving objectives when combined appropriately with other instruments of foreign policy.**<sup>41</sup> This is particularly the case where the states involved already have reasonably good diplomatic relations or wish to establish them, as with Libya and its pursuit of WMD.<sup>42</sup> It may also help if the objectives of the sanctions are proportionate and clearly-defined. Of course, if, in any particular case, economic sanctions are likely to be ineffective or even counterproductive, this does not imply that the use of force—even if legal—is likely to be any more successful if wider foreign policy considerations are taken into account, as they should be.

---

<sup>41</sup> David Cortright and George A. Lopez, *The Sanctions Decade: Assessing UN Strategies in the 1990s* (Boulder, CO: Lynne Rienner Publishers, 2000), esp. pp. 204–208.

<sup>42</sup> While UN sanctions on Libya were lifted as a result of its surrender of the Lockerbie bombers, US unilateral sanctions remained due to Libya's pursuit of chemical and nuclear weapons (it did not have a biological weapons programme). In December 2003, Libya abandoned these programmes and accepted international monitoring. Dr Howells argued that Libya "in response, amongst other things, to sanctions ... gave up its programme of weapons of mass destruction". Oral evidence from Kim Howells (Q 287). See also oral evidence from Alex Vines (Q 308); Bruce W. Jentleson and Christopher A. Whytock, "Who 'Won' Libya? The Force-Diplomacy Debate and Its Implications for Theory and Policy", *International Security*, vol. 30, no. 47 (Winter 2005–06), pp. 47–86; and Dafna Hochman, "Rehabilitating a Rogue: Libya's WMD Reversal and Lessons for US policy", *Parameters* (Spring 2006), pp. 63–78.

## CHAPTER 8: IMPLICATIONS FOR POLICY TOWARDS NORTH KOREA AND IRAN

---

111. Economic sanctions are major elements of current efforts to influence North Korea and Iran. We received evidence on both cases.<sup>43</sup>

### North Korea

112. In October 2006, North Korea tested a nuclear weapon. SCR 1718 adopted that month under Chapter VII demanded that North Korea not conduct any further nuclear weapon tests or launch any more ballistic missiles, re-enter the Non-Proliferation Treaty (NPT) and IAEA safeguards and renounce nuclear weapons. The mandatory sanctions imposed under SCR 1718 are a ban on its imports and exports of major conventional arms and nuclear weapon-related technology; a ban on its imports of “luxury goods”; a targeted financial freeze and travel ban on those involved in assisting North Korea’s weapons programmes; and stop and search rights for cargoes going to and from North Korea.
113. While giving evidence in late October 2006, Dr Howells noted regional worries, such as those of South Korea, that severe sanctions would turn the country into an “economic basket-case” which was “very unstable” but asserted that a nuclear North Korea was “infinitely more dangerous”. However, North Korea already has nuclear weapons and severe sanctions could destabilise it, with unpredictable and potentially catastrophic results. A route to the de-nuclearisation of North Korea is needed which limits the risks of that process. Dr Howells indicated his view that North Korea will have been shocked by the rapid and unanimous adoption of the sanctions resolution (Q 289). Dr Howells also stated: “Whether or not it will persuade that regime, which is a very peculiar one, I think, to change tack, is another matter altogether”. This is the central issue: whether the Government thinks its objective is achievable or its strategy workable, as its sanctions principles stipulate.
114. Dr Howells pointed out correctly that the sanctions in SCR 1718 will be quite mild in their economic effects. However, in addition, Japan unilaterally banned all trade with North Korea in October 2006 and the US already had longstanding tough unilateral sanctions in place. In September 2005 the US signed an agreement in principle to normalise relations with North Korea in return for full international controls on its nuclear technology. However, immediately afterwards, the US began a unilateral campaign of threatening banks worldwide with punishment if they continued to do business with North Korea, claiming that North Korea was involved with illegal activities. This has been highly successful in producing a wave of withdrawals of banking services and consequent trade difficulties for North Korea.
115. On 13 February 2007, the Six-Party Agreement involving the US, North Korea, South Korea, China, Japan and Russia was reached. North Korea agreed to shut down its reprocessing facilities with a view to their abandonment, permit the resumption of IAEA safeguards and discuss with

---

<sup>43</sup> Oral evidence from Kim Howells (QQ 288–291), Karel Kovanda (QQ 272–273), Lord Renwick (QQ 278–282) and Alex Vines (QQ 308–309).

the other parties a list of other nuclear facilities to be abandoned. North Korea and the US agreed to begin bilateral talks on outstanding issues with the aim of moving towards full diplomatic relations, while the US agreed to begin the process of lifting its unilateral economic sanctions and ceasing to cite North Korea as a state sponsor of terrorism. North Korea and Japan also committed themselves to commencing talks aimed at normalizing their relations. The other parties are to provide North Korea with economic, humanitarian and energy assistance including 50,000 tons of heavy fuel oil. All of this is to occur in a coordinated manner via five Working Groups in an Initial Actions phase lasting sixty days. This and the next phase are to include a full declaration of all North Korea's nuclear facilities and their disablement, and energy assistance to North Korea equivalent to 1 million tons of heavy fuel oil (including the initial 50,000 tons). The parties restated their commitment to their 19 September 2005 agreement which included commitments to verified denuclearisation of the peninsula, mutual security reassurances, full normalization of relations and economic cooperation, energy assistance to North Korea and talks "at an appropriate time" about providing North Korea with less proliferation-prone light-water reactors (LWRs). While the two agreements cover similar ground, the later one is a major advance in that it contains timetabled reciprocal measures in the first phase and reciprocal measures for a second phase with some expectation that they will also be timetabled. If implemented fully, it would be a dramatic breakthrough in the security relations of the peninsula.

116. The role of the recently intensified economic sanctions in bringing about the 13 February Agreement is disputed. For some, they assisted the broader diplomatic process by placing extra pressure, especially financially, on North Korea. For others, intensified US and new UN sanctions have worked in tandem with the package of positive incentives to induce North Korean cooperation. From a third perspective, the sanctions were unnecessary, on the grounds that this was a deal that North Korea wanted anyway and that the main problem was the Bush administration's unwillingness to do a deal due to its hostility to the North Korean regime. The deal, according to this third view, was a product of the failure of the Bush administration to coerce North Korea into submitting its nuclear capabilities to international control without simultaneous major incentives and a product also of the loss of control of Congress to the Democrats in November 2006. Whichever interpretation one favours, economic sanctions and their lifting are likely to be secondary to political will in deciding whether or not the deal is implemented. Reciprocal timetabled steps can signal the existence of political will to implement a deal and can help to build trust; they cannot create political will which is absent. The deal is very similar to the US-North Korean Framework Agreement of October 1994 but with the political complexion of US politics reversed.
117. The 1994 agreement was negotiated by the Clinton administration. Due mainly to Republican opposition in Congress, heavy fuel oil deliveries fell behind schedule, construction of promised LWRs barely started, US economic sanctions remained despite a call by South Korea in 1998 for them to be lifted, the US did not recognise North Korea, and regime change continued to be a major theme in US policy debates. At some point, possibly in 1998 or earlier, North Korea did a secret deal with Pakistan to exchange missiles for technology to produce highly enriched uranium (HEU). This could have eventually given it another route to nuclear weapons although it

seems that North Korea did not have a large-scale programme in this area. The Clinton administration quickly found out about the HEU technology import but chose not to publicise it on the grounds that North Korea's much more immediate plutonium route to nuclear weapons was frozen and because the HEU capabilities could have been dealt with along with other undeclared facilities under the Framework Agreement. In October 2002, the Bush administration exposed North Korea's HEU cheating and declared that the Framework Agreement was null and void. North Korea expelled the IAEA inspectors and in January 2003 withdrew from the NPT.

118. The fundamental weakness of the Bush administration's earlier, more confrontational, sanctions-based approach was that North Korea's plutonium facilities, which had been frozen, were unfrozen and mobilised for nuclear bomb-making. Policy on North Korea is now back where it was in 1994, but with a nuclear-armed North Korea which might turn out to want to retain those nuclear weapons. Dr Howells stated that, due to its extensive economic ties with the regime, "it is China that is going to make or break this sanction" (Q 290). This would be true if the strategy was based on inflicting maximum economic costs on the regime. Alternatively, it could be that the overall diplomatic framework within which the sanctions are operating is more important. **North Korea has repeatedly stated its conditions for renouncing nuclear weapons and scrapping longer-range ballistic missile exports: diplomatic recognition, security guarantees, lifting of sanctions and major economic incentives. However distasteful the regime is, such a deal is preferable to the dangers of nuclear-armed confrontation and the 13 February Agreement is to be welcomed. We will never know for certain if North Korea is serious about giving up its nuclear capabilities until the US is serious, consistent and persuasive about accepting those conditions, as the other regional actors wish it to be. We endorse the Government's support for the Agreement and the phased lifting of sanctions as part of that Agreement.**

### Iran

119. In 2003, the IAEA discovered that Iran had been secretly working on uranium enrichment and plutonium reprocessing. The IAEA reported in February 2006 that it was unable to conclude that there were no undeclared nuclear activities or materials in Iran, but also that it "has not seen any diversion of nuclear material to nuclear weapons or other nuclear explosive devices." The IAEA wants Iran to carry out its legal obligation to cooperate fully with monitoring, whereas the Security Council permanent members and Germany want Iran to voluntarily renounce enrichment and reprocessing, even though it is under no legal obligation to do so, in order to establish international confidence in the exclusively non-military nature of Iran's nuclear programme. As far as can be ascertained, Iran is ten years away from being able to produce a nuclear bomb. Iran has stated that it will never acquire nuclear weapons, but in 2005 President Ahmadinejad made a statement that is usually translated as: "Israel must be wiped off the map". The US, the UK and Israel have said that acquisition of nuclear weapons by Iran would be intolerable and the US is making military threats against Iran.
120. In August 2005, the EU-3 (the UK, France and Germany) proposed a Framework for a Long-Term Agreement (FLTA) involving LWRs, security guarantees and economic cooperation in return for a permanent renunciation of enrichment and reprocessing. The FLTA offers UK-French guarantees

not to use nuclear weapons against Iran, EU support for Iran's civil nuclear programme, a trade and cooperation agreement and support for Iranian accession to the World Trade Organisation (currently blocked by the US). Dr Howells stated that: "We ... offered very generous proposals and, to use the cliché, we have gone the extra mile with Iran" but said: "it is very difficult to get messages from Iran that are comprehensive in any way" (Q 288). However, in August 2005 Iran stated that it would accept the deal if it had a clearer timetable and if the US dropped its long-standing unilateral economic sanctions, established diplomatic relations and provided security guarantees. In an offer which has become known as the 'Grand Bargain' and which was immediately rejected by the Bush administration, Iran had proposed a similar comprehensive political settlement with the US in 2003 after the invasion of Iraq. It has noted President Bush's answer in April 2006 to a question about whether US options regarding Iran "include the possibility of a nuclear strike": "all options are on the table". It also draws attention to US support for the Israeli nuclear industry despite Israel's possession of nuclear weapons. **The key strength of the EU's proposed Framework Agreement on Iranian nuclear technology is its emphasis on incentives rather than sanctions and its key weakness is the lack of US support for it.**

121. UN SCR 1696 of July 2006 noted that Iran had failed to cooperate fully with the IAEA and had resumed enrichment despite the IAEA's non-mandatory request to suspend such activities. SCR 1696 made the suspension, but not renunciation, of enrichment and reprocessing (including research and development) mandatory under Article 40 of Chapter VII, the step before sanctions (Article 41) or force (Article 42). The Resolution indicated that if the Security Council had not received by 31 August a report from the IAEA that such a suspension was in place, it would impose sanctions. No such report was received and in December 2006 the Security Council passed SCR 1737 unanimously under Article 41 of Chapter VII. It banned export to Iran of anything that might assist its nuclear enrichment, reprocessing and heavy water-related and ballistic missile programmes (which exempting LWRs, one of which Russia is building in Iran); banned related investment, training, education and other services; banned cooperation with related Iranian entities; and imposed travel monitoring (not bans) and financial freezes on named persons assisting those programmes. The Resolution also endorsed a proposal made in July 2006 which at least involved the US as well as the EU but which was a watered down version of the Framework Agreement, lacking security guarantees, recognition of Iran by the US and a commitment to full lifting of US sanctions. Iran has indicated that it may exercise its legal right to leave the NPT and hence end all IAEA inspections. Iran has also threatened to impose its own sanctions in the form of an oil embargo or an increase in its oil prices.
122. As in the case of North Korea, the US has recently been imposing financial sanctions on Iranian state-owned banks and has sought to discourage the global finance sector from working with Iran. Iran has responded by seeking to conduct its foreign exchange activities in Euros. In March 2007, Russia announced a delay in supplying nuclear fuel and in the construction of the LWR due to Iran falling behind with payments for them. Furthermore, all five permanent Security Council members agreed to prepare another resolution to ban financial assistance to Iran for anything other than developmental and humanitarian purposes, to almost double the list of Iranian companies and officials subject to targeted financial sanctions and to ban imports of arms



from Iran. President Ahmadinejad has faced domestic elite criticism and electoral reverses for his fiery rhetoric, perceived mishandling of nuclear diplomacy and economic incompetence. For some, this is evidence that the combination of escalating UN economic sanctions and US military threats is starting to work. Others argue that President Ahmadinejad's domestic setbacks are unlikely to lead to the international compliance that is being sought. Thus far, there are no indications that Iran will comply. Ironically, due to the difficulties it faces in Iraq, the US is now talking to Iran about Iraq's future while still refusing to recognise Iran and normalise relations with it.

123. Dr Howells stated in his evidence: "I think the international community is right to feel a great deal of impatience and a sense, I suppose, of saying nothing has worked so far, so maybe we had better come up with sanctions" (Q 288). However, in December 2004 President Bush said: "We're relying upon others because we've sanctioned ourselves out of influence with Iran". The alternative that has not been tried with anything like sufficient vigour is getting the US on board with the EU's proposals. Mr Kovanda's statement that: "we are particularly proud that the United States subscribed to the European approach to diplomacy with Iran" is misleading in that the US had refused to offer the same full range of incentives as the EU (Q 273). It continues to be debated whether Iran is sincerely seeking a deal or whether it is stalling while it continues progress towards nuclear weapons potential. The only way to find out for sure is to offer a comprehensive deal which includes the US. **We urge the Government to make every effort, bilaterally and through the EU, to persuade the US to commit fully to involvement with the EU's proposed Framework Agreement.**

### Implications for policy towards North Korea and Iran

124. **Reliance on sanctions as the main means of resolving the current disputes with North Korea and Iran appears to be a recipe for failure.**
125. Lord Renwick stressed that fear for security in the case of either state will promote intransigence (Q 281). We found it plausible that this has been a central consideration. Iraq was unwillingly denuclearised under international control only following massive aerial bombing and then exceptionally severe economic sanctions, with regime security concerns slowing compliance. This experience suggests that Iran and North Korea can only be coerced into changing their nuclear policies by the kind of sanctions, reinforced by bombing, that are so costly in humanitarian terms that they are unlikely to be imposed due to widespread political opposition, or by invasion and occupation, with all its attendant uncertainties, costs and risks of escalation. Libya's abandonment of its nuclear ambitions showed that substantial economic sanctions can contribute to a positive outcome only with full US commitment to abandoning regime change and normalising relations in all spheres.<sup>44</sup>
126. **The prospects for success would appear to be maximised by a pragmatic emphasis on securing a sustained US commitment to broader international initiatives offering lifting of sanctions, economic incentives, diplomatic recognition and security guarantees. These incentives should be phased and coordinated with verifiable, reciprocal steps by North Korea and Iran.**

---

<sup>44</sup> Jentleson, Whytock, "Who 'Won' Libya?", p. 81

## CHAPTER 9: CONCLUSIONS AND RECOMMENDATIONS

---

### Comprehensive Sanctions

127. In relation to what was widely seen as the most important issue, Iraq eliminated its WMD stocks and production programmes unilaterally in 1991. Iraq complied with most of what was demanded of it, even though the conditions imposed for the lifting of sanctions were extremely demanding. (Para 38)
128. After this initial period and up to the end of 2002, episodes of Iraqi compliance with UN demands were sometimes related to the prospect of a possible end to sanctions and at others to averting the use of force by the US and UK. From late 2002 onwards, Iraqi cooperation was a product of trying to avert the threat of imminent invasion rather than secure the lifting of sanctions. (Para 44)
129. It is predictable that sanctions which inflict high economic costs on a country run by a ruthless government are extremely likely to result in severe suffering among the general population even if there are humanitarian exemptions and relief programmes. (Para 46)
130. When economic sanctions are relatively weak in their economic effects, they can have the overall net effect of strengthening the target regime by legitimizing it, by strengthening its control over resources, or both. Where the economic effects of sanctions are more severe, they can have the effect of weakening the target regime's overall capabilities to act, especially in foreign policy, but the regime can still turn aspects of sanctions to its advantage and increase its internal control. (Para 47)

### Targeted and General EU Sanctions: the Case of Burma

131. The evidence suggests that UK sanctions on Burma should not be regarded as targeted sanctions, particularly since the policy of discouraging trade, investment and tourism hits the economy generally and consequently hurts the ordinary Burmese people. (Para 52)
132. The sanctions on Burma send a signal of disapproval, and show that the UK and EU are determined to apply pressure for change but there has been no significant move towards greater democracy or increased respect for human rights. While the UK and EU desire democratic change in Burma, they do not have any expectation that their current economic sanctions combined with those of other countries, most notably the US, will bring about that change. This contradicts the Government's principle that sanctions should "have clear objectives, including well-defined and realistic demands against which compliance can be judged, and a clear exit strategy". (Para 54)
133. It would seem that the Government regards the current policy as the best available option, in the sense that it imposes a relatively low cost on the Burmese people and is better than any of the alternatives. Considering the evidence we have received, we are not persuaded on either count. (Para 56)
134. We think that the Government should attempt to assess whether humanitarian assistance has helped to compensate for the humanitarian costs arising from the current sanctions against Burma. (Para 57)

135. We are concerned that the Government and EU have not published any substantial analysis of the sanctions on Burma. We suggest the Government should undertake an urgent enquiry into sanctions policy on Burma, with a view to deciding whether it is worth continuing with it. (Para 61)

### **Targeted Financial Sanctions**

136. In our view, efforts to improve targeting and de-listing procedures are not adequate. The existing procedures appear to violate EU sanctions principles, which emphasise that there should be due process and clear criteria for the listing and de-listing of individuals. We urge the Government to look for ways in which proper degrees of transparency and due legal process can be incorporated into targeting procedures. (Para 66)
137. The evidence suggests that the amounts of money frozen are so small, both in absolute terms and relative to the probable resources of the targets, that it is doubtful whether asset freezes are very effective as a means of inhibiting or changing the behaviour of those who are targeted. (Para 68)
138. In the context of the technology of modern banking and the networks of informal banking based in the Middle East and Asia, “targeted” financial sanctions are likely to hit few targets. While this does not mean that they should be abandoned, such sanctions will at best be a secondary tool for action against terrorists. They may however be effective, even if they impose few costs, when the target wishes to avoid the stigma of illegitimacy. (Para 69)
139. While recognising the urgent need to take vigorous action in response to the terrorist threats facing the EU and the US, we endorse the condemnation by the EU of the extra-territorial application of US sanctions legislation as a violation of international law. (Para 73)
140. The existing measures available under EU and UK law appear to us to provide a sufficient legal basis for an effective response to US extra-territoriality: what is required is the political will to address this issue. (Para 75)

### **Targeted Commodity Sanctions**

141. In relation to targeted commodity sanctions, including diamonds, we urge the Government to continue to work for improvements in UN monitoring and enforcement capabilities and we support the view that a permanent UN team should be established to assess trade in conflict commodities and the value of sanctions in relation to them. (Para 81)

### **Sanctions Policy: Principles and Practice**

142. Targeted financial sanctions have been less effective than is sometimes suggested. They have been imposed on people and entities selected on non-transparent or dubious grounds; they have hit few targets and not hit them hard. (Para 84)
143. Even if it is regarded as necessary to retain the option of comprehensive sanctions, it should be recognised that this is not compatible with the claim that UK sanctions should hit the regime rather than the people, and we are not persuaded that humanitarian exemptions can adequately solve the problem. (Para 85)

144. The UN has developed systematic technical guidelines for evaluating the humanitarian implications of sanctions before, during and after their imposition, and also for mitigating their effects.<sup>45</sup> The Government should ensure the application of the UN's humanitarian assessment procedures to any sanctions with which it is involved, especially those which damage the target country's economy in a general way. It should also provide a public account of the application of the UN guidelines. (Para 91)
145. We are sensitive to the demands of policy-making and the reality that events can develop so rapidly that decisions must at times be made reactively. Nevertheless, we would argue that such reasons do not normally justify the rushed adoption of sanctions. If sanctions are, nevertheless, imposed without proper advance planning, they should certainly be followed by proper monitoring and by the development of an exit strategy. In our view, the Government has an incomplete commitment to the principle that objectives should be clear and realistic and that an exit strategy should be developed before sanctions are imposed. It repeatedly adopts sanctions with little sense of whether the objectives can be achieved or of how sanctions can contribute to the achievement of those objectives. (Para 95)
146. Sanctions policy is more likely to be effective if it incorporates an appropriate system of monitoring and control, which would normally require the establishment of a permanent expert staff. (Para 98)
147. We recommend that the Government should be more active in promoting systematic monitoring and independent expert review of sanctions policy. We also suggest that there should be provision for regular Parliamentary review of sanctions so that Parliament can consider whether sanctions are achieving their intended goals or whether policy should be amended. (Para 99)
148. The direct costs to British business arising from compliance with UK sanctions policy are minor. The opportunity costs will be more substantial but more difficult to quantify. The costs are acceptable to the extent that the sanctions policies themselves are well founded, something that is open to question in some of the cases we have considered. (Para 104)
149. Economic sanctions used in isolation from other policy instruments are extremely unlikely to force a target to make major policy changes, especially where relations between the states involved are hostile more generally. Even when economic sanctions are combined effectively with other foreign policy instruments, on most occasions they play a subordinate role to those other instruments. Economic sanctions can be counter-productive in a variety of ways, including when more vigorous coercion in the form of force is needed but is forestalled by those making inflated claims for the value of sanctions as an alternative. Sanctions may also be counter-productive when what is required is a much greater emphasis on economic, diplomatic and security incentives. When the Government's goal is to symbolise disapproval, measures other than economic sanctions should be used wherever possible. Furthermore, when the use of economic sanctions for this purpose is proposed, serious consideration should be given to the possibility that their overall effect will be counter-productive, even in symbolic terms. (Para 109)

---

<sup>45</sup> Manuel Bessler, Richard Garfield and Richard McHugh, *Sanctions Assessment Handbook: Assessing the Humanitarian Impact of Sanctions and Field Guidelines for Assessing the Humanitarian Impact of Sanctions*.

150. Nevertheless, economic sanctions can, on occasion, contribute substantially to achieving objectives when combined appropriately with other instruments of foreign policy. (Para 110)

### **North Korea**

151. North Korea has repeatedly stated its conditions for renouncing nuclear weapons and scrapping longer-range ballistic missile exports: diplomatic recognition, security guarantees, lifting of sanctions and major economic incentives. However distasteful the regime is, such a deal is preferable to the dangers of nuclear-armed confrontation and the 13 February Agreement is to be welcomed. We endorse the Government's support for the Agreement and the phased lifting of sanctions as part of that Agreement. (Para 118)

### **Iran**

152. The key strength of the EU's proposed Framework Agreement on Iranian nuclear technology is its emphasis on incentives rather than sanctions and its key weakness is the lack of US support for it. (Para 120)
153. We urge the Government to make every effort, bilaterally and through the EU, to persuade the US to commit fully to involvement with the EU's proposed Framework Agreement. (Para 123)

### **Implications for policy towards North Korea and Iran**

154. Reliance on sanctions as the main means of resolving the current disputes with North Korea and Iran appears to be a recipe for failure. (Para 124)
155. The prospects for success would appear to be maximised by a pragmatic emphasis on securing a sustained US commitment to a broader international initiatives offering lifting of sanctions, economic incentives, diplomatic recognition and security guarantees. These incentives should be phased and coordinated with verifiable, reciprocal steps by North Korea and Iran. (Para 126)

## APPENDIX 1: ECONOMIC AFFAIRS COMMITTEE

---

The members of the Select Committee which conducted this inquiry were:

Lord Griffiths of Fforestfach\*\*  
Lord Kingsdown  
Lord Lamont of Lerwick  
Lord Lawson of Blaby  
Lord Layard  
Lord Macdonald of Tradeston  
Lord MacLaurin of Knebworth\* ††  
Lord Oakeshott of Seagrove Bay  
Lord Paul  
Lord Powell of Bayswater†  
Lord Sheldon  
Lord Sheppard of Didgemere†  
Lord Skidelsky  
Lord Turner of Ecchinswell\*  
Lord Vallance of Tummel  
Lord Wakeham

† until 22 November 2006

\* since 22 November 2006

†† until 16 April 2007

\*\* since 16 April 2007

The Committee records its appreciation to Dr Eric Herring, University of Bristol, for his work as Specialist Adviser for the inquiry.

## APPENDIX 2: LIST OF WITNESSES

---

The following witnesses gave evidence. Those marked \* gave oral evidence.

- \* Dr Kern Alexander, University of Cambridge
- Ms Rachel Barnes, Chamber of Clive Nicholls QC
- British Bankers' Association
- British Exporters Association
- Mr Jeremy P Carver, Clifford Chance
- \* Confederation of British Industry (CBI)
- Council for British Arab Understanding
- Emeritus Professor Margaret Doxey, Trent University, Ontario
- European Banking Federation
- \* European Commission
- Mr Mikael Eriksson
- Professor Peter Fitzgerald, Stetson University College of Law
- \* Foreign and Commonwealth Office
- \* Mr John Hilary, War on Want
- \* Dr Kim Howells MP, Foreign and Commonwealth Office
- HSBC Holdings Plc
- \* Mr Joakim Kreutz, University of Uppsala
- Professor Michael P Malloy, University of the Pacific McGeorge School of Law
- \* The Lord Renwick of Clifton, a Member of the House
- \* Mr Carne Ross, Independent Diplomat
- Dr Colin Rowat, University of Birmingham
- \* Mr Alex Singleton, Globalisation Institute
- Mr H C von Sponeck, UN Humanitarian Coordinator for Iraq (1998–2000)
- Mr Derek Tonkin CMG
- United Nations Office for the Coordination of Humanitarian Affairs
- \* Mr Alex Vines, Royal Institute of International Affairs
- Voices for Burma
- \* Mr Alex Yearsley, Global Witness

### APPENDIX 3: CALL FOR EVIDENCE

---

The Economic Affairs Committee has decided to conduct an inquiry into ‘The Impact of Economic Sanctions’.

Evidence is invited by 30 September 2006. The Committee will welcome written submissions on any or all of the issues set out below.

Economic sanctions are a traditional tool of foreign policy, typically applied in circumstances in which political pressure or military action are judged as likely to be ineffective or inappropriate as means of achieving specified objectives. Economic sanctions can take the form of unilateral or multilateral sanctions, with or without United Nations agreement, and they can be applied in a general or a targeted manner, against trade flows, specific commodities or financial transactions. In recent years in particular, sanctions have focussed on measures designed to target particular individuals or groups, via restrictions on specific sets of transactions and the freezing of foreign assets.

Economic sanctions are currently applied by the UK against a number of individuals and organisations and recent political debate in Europe and the United States has highlighted the possibility that there may be calls for sanctions against other countries or groups. Against this background, the Economic Affairs Committee has decided to undertake an inquiry into the nature and impact of economic sanctions.

The Committee will inquire into the impact of previously applied sanctions and the extent to which they can be regarded as having achieved their stated purpose. In this context, the Committee intends to gather evidence about the impact and effectiveness of both general and targeted sanctions, including financial sanctions as well as trade and specific commodity sanctions. The Committee also intends to examine current Government policy towards sanctions, with a view to determining whether it is coherent and soundly based on available evidence. The inquiry will seek answers to questions of the following kind.

1. What is the purpose of economic sanctions? Are they usually intended to effect regime change, policy changes by an existing regime, or to neutralise the threat posed by an existing regime, group or individual? Have the objectives of economic sanctions in the past been clearly stated?
2. What does the evidence suggest about the impact of previously applied trade sanctions? How did they affect the sanctioned economy? Did they mainly impact on the poorer or the richer groups? How did they affect the country or countries imposing the sanctions?
3. Is there any role for general economic sanctions in today’s environment, or should sanctions normally be imposed in a targeted manner, against specific individuals or groups?
4. How effective are financial sanctions? Should they be used on their own or do they need to be used in conjunction with other measures?
5. What are the problems connected with the use of targeted economic and financial sanctions? Is there any evidence to suggest that they generate adverse consequences for individuals or businesses that were not intended to be targets? How important are such problems?



6. Does the evidence point to circumstances in which sanctions are most likely to be effective? What does the evidence suggest about the impact of unilateral sanctions?
7. Is there any evidence to suggest that targeted sanctions help to minimise any adverse humanitarian impact on the civil population?
8. In so far as sanctions affect the civilian population rather than the regime, does this typically put pressure on the regime to change or does it tend to increase support for the regime?
9. Is there any evidence to suggest that economic or financial sanctions have been successful in achieving their stated objective? If they don't achieve their objective, what should be the next step? Is this something which is normally considered when sanctions are formulated?
10. Does the British Government have a coherent policy with respect to economic and financial sanctions? Does it engage in a thorough analysis of the issues, including the likely economic impact, before deciding whether to promote or support sanctions in any particular case? What are the procedures used to review or revise current policy?

**APPENDIX 4: GLOSSARY**

---

CAABU	Council for Arab British Understanding
CBI	Confederation of British Industry
CFSP	EU Common Foreign and Security Policy
DRC	Democratic Republic of Congo
EC	European Commission
EU	European Union
FCO	Foreign and Commonwealth Office
FLTA	Framework for a Long-Term Agreement
HEU	Highly Enriched Uranium
IAEA	International Atomic Energy Authority
IMF	International Monetary Fund
ISG	US Iraq Survey Group
LWR	Light-Water Reactor
NATO	North Atlantic Treaty Organisation
NGO	Non-Governmental Organisation
NLD	National League for Democracy
NPT	Nuclear Non-Proliferation Treaty
OFF	Oil-For-Food
PTIA	Protecting of Trading Interests Act
SCR	Security Council Resolution
UDI	Unilateral Declaration of Independence
UK	United Kingdom
UN	United Nations
UNMOVIC	UN Monitoring Verification and Inspection Commission
UNSCOM	UN Special Commission on Iraq
US	United States
WMD	Weapons of Mass Destruction