



Original research article

The political economy of energy sanctions: Insights from a global outlook 1938–2017

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ARTICLE INFO

Keywords:

Sanctions
Economic sanctions
Energy
Energy trade
Energy politics
Foreign policy

ABSTRACT

This study—addressing the absence of a specific and focused analysis of energy sanctions in current literature—provides a longitudinal and quantitative study of economic energy sanctions based on a global perspective. We unpack the design of economic energy sanctions by distinguishing their goals, their measures, and how they are imposed and evolve over time, with the aim of better understanding their effectiveness, cost, and implementability. Drawing on a dataset of officially reported sanctions from 1938 onwards, we find that energy sanctions were particularly frequent between 1973 and 2002, with key senders being the US, Russia, and the UN, each using different sanction regimes, goals, and measures. Analysis reveals that energy sanctions target the distribution segment of the supply chain, and are paired with non-energy sanctions. Further, when variations and changes take place in the design of sanctions, they tend to trigger counter-sanctions. Thus, a possible explanation for senders' preference not to change or intensify sanctions is the high transaction cost associated with each change in the sanction design. We conclude that transformations and changes taking place in the global energy market are likely to influence the design of future sanctions.

1. Background

The use of sanctions as an instrument of foreign policy can be traced as far back as 432 BCE, when the Athenian Empire levied the Megarian Decree, leading to the Peloponnesian War [1]. Sanctions are measures that deprive the targeted actor of something (resources, recognition, membership status, etc.) until it complies with a specified demand (or demands) [2]. Sanctions can be exercised through various means. Actors can use force or physical instruments, such as blockades or restriction of movement. But sanctions can also be of an economic nature, such as in the case of the Megarian Decree's banning of Megarians from entering and trading in Athens. Sanctions are sometimes mixed—composed of both economic and non-economic means.

Economic sanctions represent a major portion of the sanctions imposed worldwide. While their effectiveness is widely disputed [3–5], these sanctions attempt to exert economic pressure on the target by influencing economic relations between the sender and target coun-

tries, often involving other states as well. Typical economic sanctions include restricting exports and imports, freezing assets, and depriving states of financial and economic aid.

One important subset of economic sanctions is the sanctioning of energy. While not all energy sanctions lie in the economic realm—for example, the targeting of pipelines and power plants—the majority of these sanctions are of an economic nature [6]. Keeping with the analytical separation between economic and non-economic sanctions, we focus in this paper on economic energy sanctions, and for brevity refer to them as energy sanctions. We focus on energy sanctions for several reasons. First, energy sanctions are a major category of economic sanctions [6] and thus require closer attention. Indeed, scholars have noted the lack of theorization and conceptualization with regard to how and when energy is used in foreign policy for means other than energy goals [7]. Second, energy is a fundamental enabling element of modern life, and thus has a direct and critical impact on the functioning, well-being, and development of nations. This influence can be seen, for ex-

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ample, in the effects of the trauma of the 1973 “oil shock,” specifically the perception that countries that control the oil wield an “oil weapon” [8,9].

While OPEC’s 1973 use of the oil weapon led to fear that energy dependence might increase an exporting country’s ability to use sanctions against their clients, energy sanctions can also be waged by importers and transit countries [6,10]. A case in point is the US and EU sanctioning in 2012 of Iranian oil purchases, linking oil and economic rewards in the context of nuclear non-proliferation [9,11].

Abundant literature addresses the design of sanctions and their effectiveness. Many have argued that sanctions are ineffective, or that their goals are overambitious and nonrealistic [3,5]. Others argue that the assessment of effectiveness needs to take a more nuanced approach than the success/failure dichotomy; should address the issue of costs in a more comprehensive way; and needs to take into account political regime differences in the sender country as well as domestic factors [12–16].

Understanding the design of sanctions is particularly important, given the considerable influence that the components of the design have over the costs, audience, and effectiveness of the sanction. Nevertheless, while the design of sanctions has been extensively researched, only a small number of these studies have analyzed energy sanctions. These latter works tend to focus on single case studies, with a bias toward examining Russian- and Iranian-related sanctions cases. Furthermore, studies on energy sanctions lack longitudinal analysis, and fail to account for how sanctions are applied and change over time within a given sanction’s regime or between different regimes and cases [17–19,9].

Works that investigate the design of sanctions are often descriptive, only explaining how each party reacts to a sanction measure [20,10,21]. The absence of any longitudinal and quantitative study of economic energy sanctions based on a wider, global perspective is rather surprising given that practitioners and policymakers have been engaged with questions regarding the use of economic energy sanctions for quite some time.

Because energy sanctions are multidimensional, researchers need to identify the range of energy sanctions available, identify those adopted, and identify if and how they change across time. We address this gap in this paper by providing a longitudinal and quantitative study of economic energy sanctions based on a global perspective. This study unpacks the design of economic energy sanctions by distinguishing between their goals, their measures, and how they are imposed and evolve over time. We compiled a global dataset of all formal economic energy sanctions—including oil, natural gas, and coal sanctions—imposed from 1938 to 2014. We seek to answer the questions: Who uses economic energy sanctions and why? When are economic energy sanctions imposed? What do economic energy sanctions target? And finally, how are economic energy sanctions designed and how do they evolve over time? We assume questions are key to eventually understanding the effectiveness, cost, and implementability of economic energy sanctions. By analyzing these sanctions, we can uncover the anatomy of economic energy sanctions and better understand how they operate and their importance to the energy sector.

1.1. Design of economic and energy sanctions

While the design of sanctions involves many components and considerations, they all relate to two main issues: the goal of the sanction and the measure serving it.

The goal refers to the “policy aim” of the sanction, such as democratization or stopping nuclear proliferation. A sanction’s goals can include to change the target-country’s policies through deterrence or

coercion; to change the target country’s regime through subversion; to disrupt a military adventure; or to impair the target country’s military potential. During the Cold War and in attempt to reduce Soviet political influence and control in Western Europe, US President Ronald Reagan demanded a NATO boycott on building supplies going to Soviet gas pipelines intended to transport gas to Europe [22]. Energy sanctions can also be imposed with an energy objective as their goal, although these cases are rare and less documented in the literature or official documents [23]. One example is Israel’s forced electricity grid interconnection between its own grid and that of the Palestinian electricity company in East Jerusalem. While this interconnection has certain political aims in terms of cementing Israeli sovereignty over Jerusalem, it was also a move to prevent the Palestinian company from competing with the Israeli electricity company’s production and to increase Israel’s energy security [24].

The measure of the sanction refers to how the sanction is carried out: for example, an embargo or freeze of financial and economic assets [25]. There are two broad categories of economic measures: (1) trade controls, such as export or import restrictions; and (2) financial freezes. Scholars differ in how they identify and treat these categories, particularly with regard to trade controls. Some databases distinguish trade controls simply as export or import, but others also include arms embargoes, as well as quotas, boycotts, tariffs, and bans on strategic goods: for example, the Morgan et al. [26] dataset divides trade controls into exports versus imports, and also includes a coding of carrots; whereas the Hufbauer et al. [6] dataset divides trade controls into exports versus imports and codes arms trade, but does not code for carrots. Although the literature does not address energy measures through a specific taxonomy, it seems, *prima facie*, that the same logic should apply to energy sanctions. Thus, trade controls can include full or limited oil, gas, and other energy resources export and import embargoes, as well as electricity cutoffs. Freezing measures can be imposed on energy trade revenues held in foreign financial institutions or yet to be paid.

The goals and measures of sanctions are key in determining whether economic sanctions can be efficient or not. While some posit that realistic or modest goals can be achieved via economic sanctions [27], others argue that economic sanctions tend to be overambitious, particularly in proportion to the range of economic tools applied [5,28]. For example, Elliott [27] argues that the US oil embargo contributed to Uganda’s powerlessness against Tanzania and rebel forces in 1978 [27], and that similar measures by the US and UK partially succeeded in changing Iran’s expropriation of Western oil companies’ assets once a regime change took place [29]. Lindsay [30], however, finds across 19 cases that sanctions will tend to fail if they attempt to achieve ambitious goals such as compliance, subversion, or deterrence. At times, sanctions address domestic audiences in the sender’s country rather than effectively aiming at the target country, thus widening the expectations–capabilities gap between goals and measures. British Prime Minister Lloyd George was quoted to have said that the sanctions against Italy after its invasion of Abyssinia were put in place not to save Ethiopia, but rather to save the British Government from being accused of indifference and ineptitude [31].

The design of sanctions is also closely tied to whether they are targeted (smart) or comprehensive. Targeted sanctions are specific with regard to both their targeted audience and their means. Comprehensive sanctions do not differentiate between individuals and groups and are universally imposed on the targeted country [16]. In the context of energy sanctions, it appears that boycotts and cutoffs of energy supply are more likely to be comprehensive measures. One example is the case of the 2012 EU embargo on Iranian oil, which prohibited the import, purchase, and transport of oil and petrochemicals, as well as prohibiting energy-related activities such as financing, insurance, and

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