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Center on Global Energy Policy

Program on Economic Statecraft, Sanctions and Energy Markets

Although as recently as the late 1990s, many scholars questioned the utility, efficacy, and morality of sanctions as a tool of statecraft, they have experienced a resurgence both in use and in appreciation over the last ten years. Prior to this period, sanctions were often sweeping and blunt in their application. But the sanctions applied to Iran and Russia, for example, over the past three years are far sharper and more refined than those seen in the past, targeting specific economic activity and the interconnections between trading partners -- such as finance and insurance -- in order to produce fundamental changes in behavior. In cases where the use of force is not a policy option – or where the priority is to deter the use of force – sanctions could be one of the most effective tools to change or deter the way other governments act. Moreover, sanctions have been utilized to advance other aspects of foreign policy, such as to prevent terrorism and to enforce global norms on appropriate financial regulation to combat corruption, money laundering, and bribery. Indeed, perhaps one of the most singular achievements of sanctions in the past decade has been the ability of practitioners to isolate particular individuals from the international financial system in response to and, in some cases, to preempt bad acts.

Given that several of the most recent sanctions developments have focused on the energy sector -- such as with Iran and Russia -- understanding the consequences of sanctions on the vast, complex world of international energy markets and investment—both in the short and long term—when they are being considered and drafted is necessary to ensure they are effective and, at a minimum, to mitigate unintended consequences. There are very few systemic approaches to analyze the economic tools of statecraft and how they interact with other tools, in part due to the multidisciplinary nature of such analysis. In most cases, economic statecraft focuses on economic growth. With sanctions, the intent is to stop or deter economic activity. This focus on sanctioning individual activities or entities, if not examined in the context of the web of relationships that tie together industries, economic sectors and national interests, can produce incoherent, delayed and ineffective responses. This is particularly the case in the area of global energy supplies and long term energy policies.

The Center on Global Energy Policy of Columbia University has launched a program on Economic Statecraft, Sanctions, and Energy Markets to serve as a resource for policy makers and energy leaders attempting to better understand these complex issues and their repercussions, and to better inform future actions.

The program will provide a detailed look at the market impact of sanctions -- using the case studies of Iran and Russia, initially, but which will include analysis of Iraq, Libya, and other appropriate cases -- and examine if and how companies and banks shifted their approach to the sanctioned entity or sector or if they instead sought workarounds. The Center will focus its research on energy markets in particular, though other sectors will also be examined as deemed appropriate. The Center will also examine how energy and commodity markets behaved in reaction to these sanctions regimes and how that might change over time and when they are lifted. Research will be conducted on the impact on investments, if sanctions have shifted investment decisions, driven private investment elsewhere or spurred alternative sources of investment from unexpected quarters.

The research will examine the practical result of the sanctions imposed on Iran and Russia and what they actually achieved. In addition to exploring how private sector entities responded, it will examine any unintended consequences to sanctions and if they benefitted or hurt the sanctioning government(s). The initiative will also examine whether there is an understanding of those consequences in the sanctioning government -- particularly any consequences that befall the sanctioning government itself, as could easily be the case with policies that increase the cost or undermine the supply of energy resources -- and whether modifications were made to the approach undertaken to improve the use of sanctions. How sanctions can be structured to minimize the possibility of globally damaging disruptions to energy supplies will be of particular interest.

Critically, the initiative will provide actionable policy recommendations for the current sanctions regimes, and guidance for potential similar actions in the future. Starting with Iran and Russia will create a foundation for future work that goes beyond these two countries, assessing broader policy and market trends. Recommendations will focus on what standards and improvements can be made to sanctions policies to make them more effective, efficient and sharply targeted on the desired objective while avoiding unintended consequences or approaches that exceed what is required. The initiative will also discuss when sanctions would be a good tool to employ and when they would not be practical. Finally, the program will also examine ways to adjust energy policies, if necessary, to accommodate the political steps taken in the application of sanctions.