Economic Sanctions as a Foreign Policy Tool: a Comparative Analysis of Their Effects on the Russian and Iranian Oil and Gas Industries

One of the main challenges to price stability and coordination in energy markets is the interference of politics. The use of economic sanctions against an oil and gas producer to achieve political change is often cited as tangible example. However, the evidence is at best spurious and has been the fodder of intense discussions about their effectiveness based on metrics. Taking the case of two major sanctions-struck energy markets, Russia and Iran, this paper suggests a new approach based on Hall's (2003) three-tiered order of policy change and analysis of data collected on political and economic shifts in the two countries' oil and gas sectors. It is argued that first and second-order policy changes that are more limited in scope are more likely to happen. Third-order policy change, the most radical is rare and typically occurs in special conditions that we seek to specify.

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Background

In 2014, a number of foreign governments led by the United States and the European Union launched three packages of sanctions against Russian individuals and business companies that were accused of being directly involved in the Crimean Crisis and the destabilization of Ukraine. The third package of sanctions, the most vital, mainly targeted its oil and gas industries. Supplies of equipment, technology, financial assistance and investments to this sector were prohibited. Sanctions were imposed on the biggest oil and gas companies such as Gazprom,
Lukoil, Surgutneftegas, Gazpromneft and Rosneft. Russia is one of the major producers of oil and gas in the world. It is a permanent member of the Security Council and disposes of a large arsenal of nuclear weapons. It is influential in major international organizations such as the G20 which regroups the 20 largest economies in the world and APEC, the Asian Pacific Economic Council.

Similarly, in 2010, the US and the European Union imposed economic sanctions against Iran targeting its oil and gas sectors alongside the UN Security Council (Resolution 1929) after Iran refused to suspend its uranium enrichment program. Iran is a regional power in the Middle East, a region beset by intense conflicts and rivalries, in which the Islamic Republic often plays an active role. Moreover, it is an energy power and a country of great geo-strategic importance due to its location in Western Asia and access to the single sea passage from Persian Gulf, The Strait of Hormuz. In both cases, the sanctions imposed were directed at an industry that is vital to the countries' economic development inasmuch as it provides half of their public revenues. The aim of the sanctions was to pressure the states to change their policy course. In the case of Russia, most Western politicians and some analysts have stated that sanctions against its oil and gas industry have caused great damage to its economy and threatened the country with more sanctions if it did not change its political course early enough [Suz14]. However, Russian officials and oil and gas companies maintain that sanctions have not affected the country in any meaningful way. Regarding Iran, the consensus among analysts is that its decision to stop the enrichment of its nuclear program following the P5+1 talks is the direct consequence of the economic sanctions although the final terms of the agreement will not be defined until June 2015. Iranian authorities claim otherwise; arguing that the bulk of their nuclear programme has been saved as the continuity of its research programme and the maintenance of a number of centrifuges prove.

The central question therefore is: Have the economic sanctions imposed against Iran and Russia’s oil and gas industries led to a policy change? If yes, in what conditions does policy change occur?
**Literature Review**

To our knowledge, there is no previous comparative analysis of the impact of economic sanctions on the oil and gas sector of Russia and Iran although there is a multitude of single-country studies mostly on Iran. This is probably due to the fact that the Russian case is relatively new. According to Katzman, Iran’s turbulent political system and beleaguered economy proves the effectiveness of economic sanctions although this has not yet altered its commitment to its nuclear program[Ken11]. For Sadeghi-Boroujerdi “Tehran is keeping the door to diplomacy open”, however, the deal can be hardly achieved unless Iran is offered a package with integrated ‘face-saving’ measures [Esk12]. Dina Esfandiary emphasizes that economic sanctions “encouraged Iran to return to the negotiating table”[Din13]. Yong and Hajihosseini’s analyses are based that elicit how sanctions affect the Iranian political elite and the internal disagreements that ensue from government’s excessive addiction to oil money. Their research is primarily based on a debate that arises on part of Iran’s Oil Ministry and its supporters who called for curbs of unnecessary expenditures and proposed the adjustments in the fiscal year in favor of reinvestments in the oil and gas sector[Wil13].

**Argument**

The argument of this paper is that policy change took place in Iran and Russia following the imposition of economic sanctions against their oil and gas industries. However, this change occurred at different levels. Radical change happened in Iran as illustrated by the government’s decision to renounce the non-civilian aspect of its nuclear program. Whereas in Russia, change occurred at the level of “settings” and “instruments” (lower levels) with its desire to back
negotiations. Yet, radical change is unlikely to happen in Russia because of its status as a military power and greater economic clout.

**Theoretical Discussion**

The approaches to the study of sanctions can be categorised into three strands. The first considers the impact of sanctions on the policy of targeted state and usually focuses on a case study [Gal67]. The second strand examines the conditions under which sanctions are most effective and successful and whether the initial goal is achieved [Das97]. The third strand analyses economic sanctions in other perspectives than considering the success of their impact e. g. as a coercive cooperation tool [Lis93] or a tool that serves the interests of the pressure groups within the sanctioning country [Kae88]. The first and second strands are inter-related insofar as one cannot study the effectiveness of sanctions without identifying the conditions under which they attain their aim, vice-versa.

Most studies in these clusters use metrics to assess effectiveness. An outstanding contribution to the study of economic sanctions was made by Kirshner who was one of the first to move away from the question of whether economic sanctions “work” and focused on “how they function” through introduction of a micro level approach. This approach considers how economic sanctions hurt the target state. It further emphasizes how groups within the target are affected differentially, and how these consequences change with the form of statecraft chosen. Comparative analysis of the Dominican Republic and the Panama episodes has shown that economic sanctions failed in the second case because they were not sufficiently focused on the target despite being severe. However, more modest sanctions against the Dominican Republic had less of an overall impact on the target economy, but had a greater effect on both the central government and core groups of its support [Jon97].
Determining the definition of economic sanctions also varies from one scholar to another. On the one hand, economic sanctions can be considered as a soft power and the alternative to the use of force\cite{Jam}. On the other hand, economic sanctions are a foreign policy tool that is aimed at states to alter their political behavior\cite{Cou98}.

There are also various kinds of economic sanctions exist. Portela \cite{Cla10} distinguishes three kinds of classical understanding of economic sanctions as coercive economic measure: boycott, embargo and financial sanctions. In addition, she notes, that there are two different modes of economic sanctions’ operations: (1) personal, that mostly targets decision-makers and can include freezing of personal assets, travel and visa bans, and (2) selective, that reduces the availability of means. This research is not limited by a single concept as the complexity of the economic sanctions includes each of the mentioned above.

David A. Baldwin has made an extraordinary contribution to the study of sanctions since the end of World War II by considering sanctions as an integral part of the concept of power. In his article, *The Power of Positive Sanctions*\cite{Dav}, Baldwin argues that positive sanctions cannot be ignored from the concept of power and the instrument of coercion, as it has been often done by political scientists who believe that one cannot influence more “flies with honey than with vinegar.” He claims that both senders and targets “behave differently toward positive sanctions than toward negative ones”, but applying positive sanctions is still an influence and thus, according to the broad definition of power, should be integrated into this.

Baldwin’s other work, *The Sanctions Debate and the Logic of Choice*\cite{Dav06}, is dedicated to the debate over whether economic sanctions “work” and whether they should be used. He points out that no matter how separable these questions are they are at the same time very related. While political scientists are
trying to deny the utility of sanctions, he argues that the decision to apply sanctions is made not over the expected utility and outcome preferred, but “whether it is higher or lower than that of alternative courses of action”.

However, in terms of relevance with the topic of this paper, David A. Baldwin “Economic Statecraft” [Dav85] provides us with the most suitable perspective. Recalling the pioneering work in international relations of the famous American political scientist Philip Quincy Wright, The Study of International Relations, David A. Baldwin in his “Economic Statecraft” book cites the following: “Politics may be an instrument of economics and economics may be an instrument of politics”. This idea is essential.

In comparison with accustomed policy instruments such as diplomacy or use of force, Baldwin finds another type of power, which is economic statecraft. Based on the study of the economics as an instrument of politics, David A. Baldwin reviews different techniques of economic statecraft, where sanctions are the one of those techniques. Specifically, economic sanctions as a form of economic statecraft, according to Baldwin, can be defined as “governmental influence attempts relying primarily on resources that have a reasonable semblance of a market price in terms of money”. However, no matter how misleading this definition sounds, the real goal of the sender in use of economic statecraft is to change a target’s political behavior or policy that the target would not otherwise do. Thus, by threatening or damaging the welfare of the target, economic sanctions as the form of economic statecraft lead to compliance of the target and make its objectionable policy too expensive for pursuing.

Concerning policy change, many scholars view it as “a product of both (1) large scale social, economic, and political changes and (2) the strategic interaction of people within a policy community involving both competition for power and efforts to develop more knowledgeable means of addressing the policy
A major concern for students of policy changes is the identification of patterns of change. According to incrementalists, all instances of public policy change are characterized by a single type of policy dynamics, that is marginal increment\[^{[Hay92]}\]. Peter Hall in his turn made an effort to perform policy changes in the framework of three-tiered paradigm\[^{[Pet93]}\], that was further developed and modified by the additional number of elements involved in policy shifts besides settings and instruments, which are the following: goals, objectives, mechanisms and calibrations\[^{[How09]}\].

As mentioned above, the gap in analyzing the effectiveness of sanctions is that policy scholars often omit the examination of the process itself; concentrating on the primary goal of the sanctions. For example, the analysis of 200 sanction cases made by Hufbauer, Schott, and Elliott in their book *Economic Sanctions Reconsidered*\[^{[Huf07]}\] concluded that only 34% of all cases were successful. However, the success is considered as the accomplishment of the intended goal. When the U.S. launched economic sanctions against Cuba, its primary goal was to change the Communist regime and make the government move toward respect of human rights. As it is well known, there have been little changes on Cuba since the sanctions were applied, what means that this case was unsuccessful. Measuring the effect of sanctions without examining the political changes within the targeted country during the whole period under sanctions can lead to wrong conclusions.

Peter A. Hall’s paradigm shift is one of the most useful and reliable perspectives in this vein. In his seminal book *Policy Paradigms, Social Learning, and the State* article, where he examines the case of economic policymaking in Britain between 1970 and 1985, Hall’s uncovers a three-tiered order of policy change\[^{[Pet93]}\]. The first order is the use of basic settings of policy, such as the minimum lending rate or the fiscal stance, which is usually made in the annual
budget on the basis of past experience for better performance of the economy in the future. The second order includes the application of instruments that alter the settings exercised before as the result of dissatisfaction with past experience. This policy order change can include the introduction of a new system of monetary control or the development of “cash limit” system. Finally, the third order change is characterized by the radical shift from one policy to another, which entails simultaneously changes in all three components of policy: settings and instruments. Applying both Baldwin’s economic statecraft and Hall’s orders of policy change, the paper will examine the effect of economic sanctions, aimed at oil and gas industry in Iran and Russia.

The main pitfall in the study of policy change in general and the effectiveness of sanctions in particular is the neglect that researchers have shown for the study of the policy process in favor of the goals. That is, understanding policy change as a differentiated process with several levels of attainment.

Methodology

This paper is based on comparative historical analysis (CHA) who three horseworks are bayesian probability, process tracing and congruence testing. In a broad sense, comparative historical analysis establishes the set of cases where it determines the causal sequences and patterns producing outcomes[Jam1]. Causal relationship of patterns within a single case is demonstrated by existence or absence, convergence and divergence, discrimination or reconciliation of the patterns. Process tracing approach that is used in CHA is defined as a method of causal processes evaluation within the case and that also “investigate[s] and explain[s] the decision process by which various initial conditions are translated into outcomes”[Ale85] and helps to find out that (1) an original event or process took place, (2) a subsequent outcome occurred, and (3) the former was a cause of
Congruence testing is a continuation of process tracing that uses the achieved results in order to improve the understanding of how cases of a current interest are related or different.

The goal of this paper seeks to identify whether economic sanctions in respect to oil and gas sector can lead to policy changes. To achieve this goal we compared the political regimes and their interaction with oil and gas industry in Russia and Iran, examined the nature of sanctions applied and the reasons of their adoption, assessed the economic effect of sanctions on the oil and gas industry, and, finally, analyzed policy-order changes.

The data for the research was collected through observation, documentary sources research that includes government publications, newspapers, state and companies’ statistics, independent researcher’s analysis, newspapers and journals’ articles. We conducted several interviews with experts in the oil and gas sector, and former officials working for the Ministry of Energy.

**Limitations of the Study**

Despite the fact that Russia and Iran are still under the influence of sanctions, in the case of Russia only short-term effects are visible as the economic sanctions have been in force for just over a year, while regarding Iran we can observe both short and middle-term effects as first economic sanctions against its oil and gas sector were adopted five years ago.

1. **Historical Background: the reasons for sanctions**

i) **Iran**

There are opinions that sanctions usually target non-democratic regimes.
True or not, the following analysis of Iranian regime will tell us.

Islamic Republic of Iran represents a very unique political system, which was established by the 1979 constitution. It is a unitary theocratic presidential republic, which combines the elements of Islamic theocracy with parliamentary democracy. On the one hand, the highest state authority of Iran is the President, which is elected every four years by universal suffrage and who is responsible for executive power and policy. On the other hand, the Constitution of Iran guarantees the final say in all matters by the Leader of Revolution, or so called the Supreme Leader[Jay15]. The Majlis, the Iranian parliament, is responsible for legislative power, such as approval of national budget, legislation drafts or ratification of international treaties. Sharia law and its supremacy maintained by the Guardian Council.

The problem appears in detailed consideration of power distribution between the Supreme Leader and the President. The Majlis’ members must be approved by the Guardian Council, six leaders of which are appointed by the Supreme Leader. Thus, the President seems to be a figurehead, whose decisions one way or another are influenced by the Supreme Leader. However, the history tells that the major industry and the critical engine of Iran’s economy, which is oil and gas sector, in the last decade went under control of the President.

Indeed, Iran’s economy is heavily dependent on oil and gas industry, which gives 50% to 60% of all national revenues and 80% of foreign currency revenues[Ana15]. Under Mahmoud Ahmadinejad’s presidency (2005-2013) his government took the whole control of the industry. Nowadays, oil and gas industry stays highly centralized with the National Iranian Oil Company (NIOC) at the top, that accounts to the Ministry of Petroleum. However, the division between the Ministry and the company stays unclear since they both share the personnel and staff.

In 2006 the Ministry was trying to give some autonomy to the four major companies the National Iranian Gas Company, the National Iranian Petrochemical Company, and the National Iranian Oil Refining and Distribution Company
through passing a bill to the Parliament, which would transfer the management of the companies to the NIOC. However, the Parliament refused to ratify the bill due to Ahmadinejad’s pressure[Moh15].

Foreign companies are also able to participate in the form of “buy-back” contract. “Buy-back” contract allows foreign companies to invest and work on Iranian oil and gas fields and then receive the compensation for its investments in-kind (i.e. oil) rather than in cash[Far].

ii) Russia

Despite its secularity comparatively to Sharia supremacy in Iran, Russia has some common characteristics with the Islamic Republic. First of all, Russia is semi-presidential republic. As in case of Iran, where the power is divided between two main leaders, according to the Russian Constitution 1993, Russia is represented by the President – the Head of the State – and the Prime Minister – the Head of the Government. However, the final say always belongs to the President and he has the right to dissolve Parliament. The second similarity is that oil and gas sector provides Russian economy with 50% to 52% of its national revenues, what equals Iranian oil and gas sector impact. Thus, it is seen that both Russian and Iranian economies are highly dependent on production of these resources. Thirdly, excessive centralization of the oil and gas industry in Russia as well as in Iran represents an obstacle for intensive development of the economy and competitive environment. Russian government holds shares of the two major oil and gas tycoons – Rosneft (69.5%) and Gazprom (50, 23%), though there are such private companies as Lukoil and Surgutneftegaz. TNK-BP was private before it has passed into the hands of Rosneft in 2013[Ros15].

1.2. Threats to world peace

a) The Iranian Nuclear Program

In last decades nuclear program of Iran has become one of the most
disputable and tough issues for international community. It was launched in 1957, when The United States and Iran signed a civil nuclear cooperation agreement as a part of the US Atoms for Peace program. A decade later Iran had joined the Nuclear Non-Proliferation Treaty and then, in 1970, ratified it. However, with the Islamic Revolution of 1979, Iranian nuclear program was cancelled due to religious believes by Ayatollah Khomeini. Decade later it was eventually revived by the new government in the closing phases of the 1980-1988 War with Iraq.

The West remained indifferent until 2002, when an opposition group revealed the existence of two undeclared nuclear facilities - a uranium enrichment plant at Natanz and a heavy-water reactor at Arak. For the reason that Iran significantly reduced the inspection rights of the IAEA and refused to implement the Additional Protocol to the Nuclear Non-Proliferation Treaty (NPT) in 2006, the IAEA referred the matter of Iran’s nuclear program to the UN Security Council. Frightened by the danger of Iran’s acquisition of nuclear weapon, the Security Council has set in the face of international community and world peace the task to prevent Iran from further nuclear activities. UN Security Council has passed four rounds of economic sanctions against Iran.

b) Russian interference into Ukrainian conflict

In November 2013, the Ukrainian crisis broke out when President Viktor Yanukovych decided to suspend the signing of European Union association agreement. It is assumed, that the reason for Ukraine’s turn around was that official Kiev could not resist the economic pressure and blackmail from the side of the Russian Federation. Thus, the Swedish foreign minister and the co-author of the whole European Union association agreement project, Carl Bildt, wrote in his twitter right after the negotiations had failed: “Ukraine government suddenly bows deeply to the Kremlin. Politics of brutal pressure evidently works”[The13]. Yanukovych’s uncertainty to implement the document led to mass-protest of his opponents and those who wished for better life and European path for Ukraine. The movement, called Euromaidan, was growing stronger as more protesters with
different demands were taking to the streets. On 22 February 2014, threatened by protesters Yanukovych fled Kiev, the capital city and Euromaidan opposition leaders took power. This was negatively met by eastern Ukrainian regions and resulted in anti-revolution and pro-Russian demonstrations in Kharkiv, Donetsk, Luhansk, and Odessa.

As protests expanded to Crimea and Sevastopol, on 1 March, the Federation Council of Russia approved the proposal of Russian President Vladimir Putin to send troops to Ukraine until the situation stabilizes and Ukraine stop being a threat to Russian security. Russian forces were sent to the peninsula as the aim to provide security in Crimea and Sevastopol. However, for several months Russia was denying the presence of pro-Russian armed men, called in the West, “little green men”, insisting that these were local self-defense forces[Ste15].

Later that week Russian flags were raised over the Crimean and Sevastopol Parliament buildings, and pro-Russian self-proclaimed government announced that Crimea and Sevastopol would hold a referendum on independence from Ukraine and a possible unification with Russia. The Referendum held on 16 of March with Russian forces protecting the borders of the peninsula resulted in 95.5% of votes in favour of the separation from Ukraine and union with Russia. On 18 March 2014, Putin signed a treaty to that effect.

The majority of member-states of the UN, the USA, EU and such international organizations as NATO, OSCE and PACE refused to recognize the referendum and characterized Russian actions as aggression, annexation of Ukrainian territory, and threat to Ukrainian integrity and stability. Kiev itself designated Crimea and Sevastopol as temporarily occupied territories.

Russian involvement in Ukrainian crisis was growing as pro-Russian protests were taking place in the Donetsk and Luhansk oblasts, called Donbass. These demonstrations soon resulted in armed confrontation between the pro-Russian separatists’ forces and the Ukrainian government, which after a year has been still ongoing.

As a result, following Russian actions in Ukraine, annexation of Crimea and
Sevastopol, destabilization of Ukrainian integrity and stability, as well as use of force, the West led by the US and EU has adopted three packages of economic sanction against Russia.

c) Sanctions against Iran's oil and gas industry

In response to Iran’s breach of its obligations to suspend all enrichment-related activity, undermined by continuous construction of enrichment facility at Qom, 20 per cent enriched uranium and failure to notify it to the IAEA, the Security Council, consisted of five permanent members: China, France, Russian Federation, the United Kingdom, and the United States, at its meeting on 9 June 2010 has adopted Resolution 1929. Oil and gas sector of Iran suffered the first visible damage as this resolution prohibited any banking or financial services on the territory of Iran, including freezing of financial and other assets or resources belonged to the Iranian Revolutionary Guard (IRGC) and Islamic Republic of Iran Shipping Lines (IRISL)\[UN10\].

Resolution 1929 was adopted by 12 votes in favor, 2 against, made by Turkey and Brazil, and Lebanon’s abstention. Explaining their position, these three states argued that sanctions were not an effective tool concerning the case of Iran’s nuclear program activity and they would rather harm the general population of Iran than prevent Iran from uranium enrichment.

Russia and China were insisting on the removal of measures that targeted Iran’s energy sector. An explanation of such behavior is quite simple. China carrying of its energy hungry economy had trade and investments interest in Iran. In 2010, China National Petroleum Corporation and the China Petroleum and Chemical Corporation (SINOPEC) had already been developing the South Pars gas field and the Yadavaran field in Iran. As for Russia, it had economic interest relatively to Iran since Russian was developing a number of Iranian domestic oil fields and in 2009 Russian Gazprom and National Iranian Oil Company (NIOC), signed a memorandum of understanding, which allowed Russia to develop the Azar and Changuleh oil fields, with estimated reserves of 2 billion barrels\[Ira13\].
However, Resolution 1929 was not the only threat to Iranian oil and gas sector. On July 1, 2010, the United States expanded economic sanctions against Iran by passing a Comprehensive Iran Sanctions, Accountability, and Divestment Act, which banned export to Iran of any goods, technology or services, prohibited investments, funds, assets, loans in Iran or in property owned or controlled by the Government of Iran, and any account servicing. The most destructive measure for Iranian oil and gas industry was the prohibition of trade in Iranian oil petroleum products and services performance, including financial services, or supply goods or technology that would benefit the Iranian oil industry\[Tre10\].

The European Union did not stand aside as well. On 25 October 2010, the European Union Foreign Affairs Council approved the final form of Regulation No 961/2010, applying further restrictive measures against Iran. Concerning oil and gas industry, that document banned technology and equipment that might be used for Iranian oil and gas industry, prohibited investments, financial and banking service\[COU15\].

On May, 2011 the United States in response to sales of gasoline and related equipment and services in Iran sanctioned the following oil and gas companies:

- Tanker Pacific;
- Royal Oyster Group (UAE);
- Petrochemical Commercial Company International (PCCI) of Bailiwick of Jersey and Iran;
- Speedy Ship (UAE/Iran);
- Associated Shipbroking (Monaco);
- Societie Anonyme Monegasque Et Aerienne (SAMAMA, Monaco, subsidiary of Ofer Brothers);
- Allvale Maritime (subsidiary of Ofer Brothers Group, Israel);
- Petroleos de Venezuela (PDVSA) of Venezuela.

On November 20, 2011, the US authorized the imposition of certain sanctions with respect to the provision of goods, services, technology, or support for Iran’s energy and petrochemical sectors by adopting the Executive Order
on July 30, 2012 the United States passed Executive Order 13622 that imposed restrictions on financial transaction with the National Iranian Oil Company (NIOC) or Naftiran Intertrade Company (NICO), and any person engaged in the purchase or acquisition of petroleum or petrochemical products from Iran, however with determination that there was sufficient supply of petroleum by other countries. After several months of discussions, four major oil and gas sector investing companies pledged to end business with Iran:

- Statoil of Norway;
- Total of France;
- Royal Dutch Shell of Britain and the Netherlands;
- ENI of Italy.

At the same time, three new EU measures in relation to Iran were published in the EU Official Journal in December, 2012, that expanded the existing suite of EU sanctions and were relevant to any EU companies, or persons within the EU, engaged in trade with Iran, Iranian persons or Iranian-origin goods. Probably the most eye-catching measure was the bringing into force of the EU embargo on Iranian-origin gas. The gas embargo was enacted by Article 14a of Regulation 267/2012. The embargo prohibited the following activities:

- purchasing, transporting or importing Iranian Gas into the EU;
- exchanging natural gas streams of different origins;
- providing, directly or indirectly, brokering services, financing or financial assistance, including financial derivatives, as well as insurance and re-insurance and brokering services relating to insurance and re-insurance, in respect of the above activities.

In addition to the United Nations’, the United States and European Union sanctions, further sanctions related to oil and gas industries and their financial services were imposed by Canada, Japan, South Korea and Switzerland.

Canada implemented sanctions under the Special Economic Measures Act banning financial transactions with Iran; expanding the list of prohibited goods to include all goods used in the petrochemical, oil and gas industry in Iran,
prohibited the export to Iran of vessels designed to transport or store crude oil or its products, the import of natural gas, oil, and petroleum or petrochemical products from Iran[Can15].

Japan and South Korea have imposed trade, banking, and energy Iran sanctions similar to those of the EU, prohibiting Japanese and South Korean companies making investments in the Iranian oil and gas industry[Iwe14].

One of the aspects of Swiss sanctions provides ban on any transactions or equipment that can be used in the petrochemical industry.

1.3.2. Sanctions against Russia's oil and gas industry

The West was trying to persuade Russia to change its position in relation to Ukrainian conflict. Thus, on 6 of March, 2014, Washington adopted Executive Order 13660 on blocking a property against the “persons who have asserted governmental authority in the Crimean region without the authorization of the Government of Ukraine that undermined democratic processes and institutions in Ukraine”[Exe15]. However, Russia did not react by changing its behavior immediately and did just the opposite by supporting the Crimean referendum over its autonomy on 16 of March, 2014 and signing a treaty with the separatist government of Crimea on accession of the Republic of Crimea and Sevastopol into the Russian Federation, the situation aggravated.

The United States and the European Union did not stay aside. Washington passed two additional Executive Orders 13661 and 13662 on the 17 and 20 of March correspondingly, that were blocking property of additional persons from Russian and Crimea in response to the Government of Russian Federation actions and policies in Ukraine, including the deployment of Russian forces on the territory of Crimean peninsula and “purported annexation of Crimea”[Exe14], considering it as a threat to national security of Ukraine and foreign policy of the United States that undermines democratic processes, peace and stability of the country.

On 17 March, the European Union, condemning Russia’s violation of
Ukrainian sovereignty and territorial integrity by illegal annexation of Crimea and use of force, imposed travel bans and assets freeze on Russian and Ukrainian officials involved in the mentioned above situation.

On 16 July, the United States issued Directives 1 and 2 in addition to the Executive Order 13622 which prohibited “transacting in, providing financing for, or otherwise dealing in new debt of longer than 90 days” for persons and entities operating in Russian financial and energy sectors. Russian oil and gas sector faced threat as the two following Russian major oil companies were included: Novatek, Rosneft, and two banks: Vneshekonombank and Gazprombank.

Although the first two rounds of sanctions did not lead to destabilization of Russian economy. Various experts and scholars had a feeling that the West would probably try to influence Russian by affecting its most productive sector of the economy – applying stronger sanctions against financial services and oil and gas industries. Thus, for example, the Head of the Institute of Energy Policy and former deputy minister of energy Vladimir Milov was writing in his Forbes article on 5 of September, 2014: “In the coming years Russia can face a complete freeze of new oil and gas projects in the Arctic and Pacific Offshore, if sanctions affect the import of equipment and technologies”.

A week later, on 12 of September, the United States has launched the third package of sanctions by authorizing 4 Directives under Executive Order 13622. Directives 1 and 4 are considered to be the most important because they all touch upon the oil and gas industries and their financial service.

Directive 1 prohibited all “transactions, provision of financing, and other dealings in new debt of longer than 30 days” with respect to the persons or entities of financial sector of the Russian Federation. The list of sanctioned companies included all major Russian energy companies such as Gazprom, Gazprom Neft, Transneft, Lukoil, Rosneft and Surgutneftegaz. One of the largest banks, Sberbank, was also covered by sanctions.

Directive 4 prohibited “the provision, exportation, or re-exportation,
directly or indirectly, of goods, services, or technology in support of exploration or production for deep-water, Arctic offshore, or shale projects that have the potential to produce oil in the Russian Federation”[DIR14].

On December 18, 2014, Council Regulation (EU) No 1351/2014 concerning restrictive measures in response to the illegal annexation of Crimea and Sevastopol, adopted by the European Union, prohibited to sell, supply, transfer, or export goods and technology suited for the prospection, exploration and production of oil, gas and mineral resources in Crimea and Sevastopol[Cou14].

Since March 17, 2014, Canada has adopted several regulations under the Special Economic Measures Act that include financial prohibitions and assets freeze of designated persons, oil company (Rosneft), and banks (VTB Bank, Bank of Moscow, Rosselkhozbank)[Can151].

Australian sanctions concerning oil and gas industry ban the access of Russian state-owned banks to Australian capital markets and prevent the export of goods and services for use in Russia’s oil exploration or production[Exp14].

In September, Tokyo prohibited Vneshtorgbank, Vnesheconombank, Gazprombank, Rosselkhozbank and Sberbank to issue securities with a maturity of more than 90 days without a special permit in its territory.

Ukraine has also joined the senders of sanctions and adopted a list of 29 prohibitions that included assets freeze, banking service and investments’ restrictions.

Table 1. UN, U.S., EU and Allied Country Sanctions against Iran and Russia
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<td>Freezing of financial and other assets or resources belonged to the</td>
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<td>Iranian Revolutionary Guard (IRGC) and Islamic Republic of Iran</td>
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<td>Shipping Lines (IRISL). Does not ban civilian sector.</td>
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<td><strong>U.S.</strong></td>
<td>1. Ban on financial services, supply of the goods or technology that</td>
<td>1. Blocking property of certain persons;</td>
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<td>would benefit the Iranian oil industry;</td>
<td>2. Prohibits all “transactions, provision of financing, and other</td>
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<td>2. Restricted financial transactions with NIOC or NICO, and any</td>
<td>dealings in new debt of longer than 30 days”;</td>
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<td>person engaged in the purchase or acquisition of petroleum or</td>
<td>3. Prohibits “the provision, exportation, or re-exportation, directly</td>
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<td>petrochemical products from Iran;</td>
<td>or indirectly, of goods, services, or technology in support of</td>
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<td><strong>EU</strong></td>
<td>1. Bans investments, financial and banking service;</td>
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<td>2. Gas embargo.</td>
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<tr>
<td><strong>Canada</strong></td>
<td>Bans financial transactions, vessels for crude-oil</td>
<td>Financial prohibitions and assets freeze of designated persons,</td>
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<td></td>
<td>transportation, import of natural gas, oil, and petroleum, or</td>
<td>companies and banks.</td>
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<td></td>
<td>petrochemical products from Iran.</td>
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<tr>
<td><strong>Japan</strong></td>
<td>Ban trade and banking services.</td>
<td>Banking restrictions</td>
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<tr>
<td><strong>South Korea</strong></td>
<td>Prohibit Japanese and South Korean companies to make investments in</td>
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<td></td>
<td>the Iranian oil and gas industry and sell energy or petrochemical</td>
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<td>equipment.</td>
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<td><strong>Switzerland</strong></td>
<td>Bans any transactions or equipment that can be used in the</td>
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<td></td>
<td>petrochemical industry.</td>
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<td><strong>Australia</strong></td>
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<td>1. Bans the access of Russian state-owned banks to Australian capital</td>
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<td>2. Prevents the export of goods and services for use in Russia’s oil</td>
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<td></td>
<td>2. Prevents the export of goods and services for use in Russia’s oil</td>
<td>exploration or production.</td>
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<tr>
<td><strong>New Zealand</strong></td>
<td>-</td>
<td>No sanctions concerning oil&amp;gas industry.</td>
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<td>1. Bans the access of Russian state-owned banks to Australian capital</td>
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<td>2. Prevents the export of goods and services for use in Russia’s oil</td>
<td></td>
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<tr>
<td><strong>Ukraine</strong></td>
<td>-</td>
<td>Assets freeze, banking service and investments’ restrictions.</td>
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</table>

do not lead to the third-order of policy change, the most radical. However,
2. The Oil and Gas sectors and Political change

2.1. Sanctions undermine economic health

As economic sanctions that mostly targeted oil and gas sector of Russia and Iran came into effect, national governments began to deny any visible negative impact of these sanctions on the industry. Nevertheless, statistical data shows the opposite. To get away from any political prejudices and stay precise, let us trace the effect of economic sanctions on the oil and gas industries of Iran and Russia, and thus, the economy, by selecting variables that play the most important role in indicating oil and gas sector’s health, which are the following: oil production, oil export, gas production, gas export, foreign companies’ activity and projects’ development. These variables will cover one-year of sanctions’ impact that is 2013 compared to 2012 in Iran and 2014 as to 2013 in Russia.

2.1.1. Iran's economy faces decline

In 2012 and 2013 for the very first time during the last decade economic growth of Iran showed negative numbers.

1) Iranian oil production dropped down from 3.7 million bbl/d in 2012 to 2.8 million bbl/d in 2013, what equals 24% decrease relatively to previous year.[EIA13]. Indeed, Iranian oil and gas production is highly dependent on foreign technologies and financial investments that were banned by the major international actors. Economic sanctions have simply pulled the plug into the industry’s stable work.

2) Crude oil exports averaged just 1.1 million bbl/d over the first nine months of 2013(-44%), went down from 2.5 million bbl/d in 2011 and 1.5 million bbl/d in 2012 (-40%). The reason is vivid: the U.S., as well as some other Western countries prohibited import of any petrochemical-related products and replaced it by other exporters.
3) Positive growth was shown by gas production that amounted to 166.6 billion cubic meters in 2013, increasing by 0.8% in comparison with previous year, when gas production had reached 165.6 billion cubic meters. The fact is, that many Iranian families are not supplied by gas which is important for daily living needs, and thus, Iran is increasing its gas production to cover domestic consumption[Dal15].

4) Gas export in 2013 amounted to 9,307 million standard cubic meters what is 1.7% higher relatively to 9,152 million standard cubic meters in 2012. The growth can be explained by new gas sales contracts signed by Iran and such countries as Oman, Pakistan, India and others. At the same time, Turkey increased its import of Iranian gas that had already taken more than 90 percent of Iran’s gas exports[Tur13].

5) Having great amount of its own natural resources, Iran was importing gasoline from abroad. As the import of gasoline to Iran was banned, such foreign companies as Total, Shell, BP, Relience, Petronas and dozens of others have stopped supplying Iran with gasoline[Ken11].

6) Moreover, mentioned above companies, as well as Repsol, StatoiHydro, and Eni have decided to suspend their projects in Iran. Thus, Italian company ceased operations on the Darkhovin field; Shell and Repsol pulled out of the development of 13 and 14 phases of South Pars field after eight years of negotiations[Tom10]. However, US sanctions law excludes long-standing joint natural gas projects. One of them is the Shah Deniz natural gas field and pipeline in the Caspian Sea run by NICO and foreign partners represented by BP, Azerbaijan’s natural gas firm SOCAR, Russia’s Lukoil, and other firms[Ken11].

So all these mentioned above factors as well as many others such as cut off from the international banking system, ‘brains drain’ due to lack of jobs, or growing poverty could barely stop increasing socio-political discontent that finally resulted in political change analyzed below.
2.1.2. Russia under pressure of oil and gas sanctions

When economic sanctions against Russian oil and gas industry were launched, and financial assistance was banned, Dukov and Sechin, the two chairs of Gazpromneft and Rosneft respectively, announced that economic sanctions would have no impact on companies’ activity. The same was claimed by the chairs of French Total, Glencore, and Statoil. However, in half a year both Gazprom and Rosneft addressed to the government asking for financial assistance. Does not that mean that oil and gas sector of Russia finally faced negative effect of sanctions? Let us look at the variables proposed above:

1) Thus, the volume of oil production in Russia in 2014 increased by 0.7% compared to the same period of 2013 and amounted to 10 million bbl/d\textsuperscript{[RBC14]}. This number can be explained by the oil price downfall. To cover the gap in oil revenues companies had to produce more.

2) Russian oil exports to foreign countries in 2014 amounted to 199.096 million tonnes (3.998 million barrels per day), which is by 3.8% lower than in 2013;

3) Gas production in Russia in 2014 decreased by 4.2% compared to the same period of 2013 and amounted to 640.237 billion cubic meters;

4) Another important index, which is negatively growing is gas export. According to official statistic, gas export by the end of March decreased by 11.2%;

5) The Great Britain has blocked the deal of M. Freedman’s company LetterOne on gas field purchase in Northern Sea that cost €5 billions. Even those private companies that didn't face sanctions became hostages in relations among The West and Russia. Third package of sanctions influenced the plans of Shell to develop the Bazhenov Formation field in the Khanty-Mansi Autonomous District.

6) One of the largest oil and gas service companies Schlumberg withdrew its specialists due to sanctions. On 26 of September American company Exxon Mobil ceased 9 of its project within cooperation agreement with Rosneft.
Norwegian company Statoil decided to continue its cooperation with Russian companies after correcting some projects.

To sum up, we have analyzed the main indicators of the oil and gas sector both in Iran and Russia, and by now we can conclude that despite the fact that the government and representatives of the oil and gas companies were trying to deny the impact of sanctions, statistics has, unfortunately, shown that negative effect is still present.

2.2. Short-term measures

Previously this paper examined whether economic sanctions, launched by the West against Iran and Russia that mostly targeted oil and gas sectors of these two countries, somehow have struck this industry. On the one hand, gas production and gas export in case of Iran, and oil production in Russia showed positive growth. On the other hand, the rest of the examined variables highlight the presence of negative effect of sanctions.

Now we come to the heart of this research, which lies in the understanding of the political changes that took place in Russia and Iran towards oil and gas sector survival. The analysis is presented in the framework of Hall’s three-tiered paradigm: settings, instruments and radical change.

It is highly important to understand that political change does not take place if there is no need for that. However, since there is visible effect of economic sanctions on the oil and gas industries, political changes are inevitable.

2.2.1. Iran's reforms: settings and instruments

Settings

Settings are the first move of policy-makers towards policy change aimed at better performance of the economy. As Iran felt the pressure of economic sanctions, it acknowledged the need to adjust certain settings of oil and gas policy.

First of all, Iran’s leaders highlighted a necessity to detach government
budget from oil revenues that bring about 50-60% of the whole. However, the drop of the oil and gas revenues resulted in cutting expenditures across the broad range of issues by 20%[Wil13].

Secondly, Iranian government amended the budget, whose deficit has been decided to cover by savings from subsidy reforms and the sale of foreign currency, over which the greater control was set by the government (Ibid).

Thirdly, as oil embargo on behalf of the U.S. and gas embargo under European Union package of sanctions came into effect, Iran, which had so far worked with Asian countries proposed even greater reorientation.

**Instruments**

Asian turn was explained by the fact that six global buyers - China, India, Japan, South Korea, Turkey and Taiwan – were allowed to buy Iranian crude oil. Primarily, China, India and Turkey, in order to support Iranian economy and cover its domestic consumption, have significantly increased their purchases of Iranian crude oil[Ind14]. However, it was not enough to recover Iranian crumbling economy and condition of oil and gas sector. To alter settings, Iran has signed new contracts for cooperation with Asian countries. Among them are $4.5 billion deal to invest in the oil and gas sector development in the Islamic Republic reached with Chinese state-owned petroleum corporation[Ben14], pipeline deal with Pakistan[Rob13], and agreement with Iraq to supply it with natural gas for power generation[Reu13].

Facing a decline on field’s exploration and oil production, Iranian government worked out a new model of contract, which would allow foreign companies to hold a share in oil projects without owning the field. This model is aimed to attract foreign investors and their technologies to Iran. Hassan Rouhani addressed to Christophe de Margerie, the former Head of French Total, during his meeting in Davos: “We have plenty of oil and plenty of gas. We need your
management skills and your technologies. We do not really need your money”[Rou14].

Another instrument proposed by Iranian government touched upon the problem of accepting payments for oil transactions in the US currency. Since 2013 Iran has been carrying out its oil and gas transactions with India, China, South Korea, and, recently, with Russia and Turkey in these countries’ national currency[Ira].

In 2011 Iran faced the need in self-reliance. It has established National Development Fund of Iran (NDFI) in order to supplement Oil Stabilization Fund and transform oil and gas revenues into investments for nation and Fifth Five-year Socio-Economic Development Plan (2010–2015). One of this plan’s directions is oil and gas industry rejuvenation program that would make it more sufficient, productive and independent[IMF10].

**Radical change**

However, Iranian government was incapable to confront sanctions. Socio-economic discontent caused by the effect of sanctions, as well as Ahmadinejad’s policy brought Iran to the negotiating table with sanctions-senders. Struggling for its right to continue developing nuclear program, Iran has finally been pushed to abandon wide range of nuclear activities and give up technological equipment and facilities it acquired before.

**2.2.2. Russia sees two-order change**

**Settings**

Russian settings did not have major difference. In December 2014 Russian Prime-Minister Dmitry Medvedev acknowledged the effectiveness of sanctions announcing that “Russia needs to get off the oil needle”[Ale14]. Down in oil and gas revenues have resulted in reduction of expenditures by 10%[Exp15].
Unfortunately, besides the implementation of economic sanctions against Russia, decrease in oil revenues was largely caused by the downfall of oil price. Russian Ministry of Economic Development decided to cover this gap by, so called ‘air bag’, represented by the National Welfare Fund money that was initially maintaining pension system and sale of foreign currency whose revenues increased by four-times as the ruble dropped down.

**Instruments**

Unlike Iran, Russia hit back with one-year embargo on agricultural products produced by any country that adopted sanctions against Russia as the third package of economic sanctions aimed largely at oil and gas sector came into effect.

As well as Iran, Russia has redirected its attention to Asia. In July 2014 Russia and China have signed a deal on building a pipeline from Russia’s West Siberia gas fields into northwestern China. This route will allow Russia to redirect its gas flows from West Siberia to Chinese market and stay aside from economic pressure in negotiations with the West. 25 joint agreements have been signed with India in order to develop high-technology projects. Cooperation between Moscow and New Delhi also applies to the Arctic. "Rosneft" and "Gazprom", Russian largest companies, together with Indian colleagues are preparing projects for the development of the Russian Arctic shelf and the expansion of liquefied natural gas[Вес14].

Furthermore, Russian has changed its transactions with China, India and Iran in national currency – yuan, rupee and rial respectively. The same mechanism of transactions is currently being discussed with Egypt.

What causes disapproval today is hauling of the National Welfare Fund, which was established for pensions benefits. However, today NWF is used to co-finance oil and gas projects. According to the Ministry of economic development, Yamal-SPG independent project of NOVATEK was approved for co-financing
from the Fund of National Welfare by 1.5 trillion rubles due to sanctions and five projects of Rosneft was approved by 300 billion rubles [Pap15].

There is also a tendency today among Russian companies to sell their foreign assets. Thus, Lukoil signed an agreement with Hungarian MOL and Norm Benzinkut to sell its network of filling stations in Czech Republic, Slovakia, Hungary and of its Ukrainian department to AMIc Energy Management GmbH.

2.3. Coming to agreement

2.3.1. Iran's and P5+1 Joint Plan of Action

In the beginning of this research it was established that Iran represents a successful case of economic sanctions implementation as they have torn Iranian economy to shreds and provoked a significant shift within the government and brought Iran to the negotiating table.

However, the agreement on Iranian nuclear program with the West would not be realistic under the presidency of Mahmoud Ahmadinejad, whose conservative views as well as human rights violations and nuclear program support were criticized both domestically and internationally, even though he claimed that Iranian nuclear program was developing nothing but peacefully.

Social and political discontent caused by his policy resulted in the victory of moderate and liberal politician Hassan Rouhani, a former nuclear negotiator, on the elections of 2013 who promised to restore rocky relations with Western nations and improve the economic situation in Iran.

It is worth saying that there have been multiple rounds of negotiations between Iran and the so-called E3/EU+3 (P5+1) - the five UN Security Council permanent members, the US, UK, France, China, Russia and Germany. For years the two sides failed to make headway. The election of Hassan Rouhani as a president of Iran made it possible to come to constructive engagement with the international community.
On 24 November 2013, representatives of P5+1 reached the historical agreement with Iran, officially titled the Joint Plan of Action. Under JPA Iran, generally, is obligated to “stop the advance of its nuclear program, roll back key aspects of the program, and include unprecedented access for international inspectors”. In return, as for the oil and gas industry, P5+1 stops reducing Iran's crude oil sales; EU and U.S. suspend sanctions on Iran’s petrochemical investments and associated transportation service[Jo13].

As the Joint Plan of Action went into effect on January 20, 2014, Iran made an effort to roll back some of the nuclear program activities in order to get some sanctions relief. A year after Geneva agreement all members of the talks met again, but despite all the promises no agreement was signed.

However, while this research was under process further framework agreement on nuclear deal was reached by P5+1 and Iran. After a week of talks behind the closed doors on 2 of March, 2015 in the joint statement of the Minister of foreign affair of Iran Mohammad Javad Zarif and High Representative of the European Union Federica Mogherini announced that the nations came to several common points and will work out the detailed document by June 30, 2015.

By now the only obligations that have to be carried out and which Iran is trying to fulfill are those assigned in the Joint Plan of Action.

2.3.2. Will Russia escape?

The analysis made in this paper shows that Russian and Iranian cases are similar, although they are not identical.

Since the day when first package of sanctions against the Russian Federation was applied, no negotiations between Moscow and sanctions’ senders have been held in comparison with Iranian case. I believe the best way to predict Russian behavior is to remember the reasons why economic sanctions have been applied.

First reason is illegal annexation of Crimea. Russian official position is that referendum in Crimea was fair and transparent, held according to international
law and democratic principles. Russian government claims that it could not pass by the decision made by the majority of people in Crimea and Sevastopol who expressed their will of joining Russia by 96% of votes “for”\[Add14\]. The outcome of the referendum is not the only reason why Russia has so easily accepted this reunification.

Historical, political, population and economic factors are among those circumstances named in support of admitting Crimea and Sevastopol to the Russian Federation. Indeed, Russia and Crimea share history and pride. Crimea, along with Sevastopol as a federal city, was part of the Soviet Union until 1954 when the Bolsheviks decided to transfer these territories under Ukrainian Republic control. This is where Prince Vladimir was baptized and Russian Black Sea Fleet was built. Today the population there counts by 2, 2 million people, of whom 1, 5 million are Russian, and 1/3 of the rest considers Russian language to be their native one. Furthermore, the political situation in the region expressed in the fights for power, cash flows and assets between authorities, as well as in growing poverty that made people search for labor abroad or in Russia, has been leading to the crisis during the last 25 years that has finally resulted in referendum. In the long run, there is no point to discuss the question of Crimea and Sevastopol return at least under the same power in Russia.

Second major reason for economic sanctions to be applied is the use of force in Ukraine conflict. However, if in case of Crimea Russia has admitted the use of force, here it never does. By now there is no evidence provided by any sanctions-sender on Russia using or sending forces to Ukraine.

Unlike Iran, not only Russia did not get frightened by economic sanctions, but it responded by signing a decree "On the application of certain special economic measures to ensure the security of the Russian Federation" applying one-year embargo on agricultural products whose country of origin had either adopted economic sanctions against Russia or joined same\[Ука14\]. For the EU market, Russia represents the second most important destination for the European agricultural products with the total value of EUR 11.8 billion in 2013 (10% of all
Thus, Russian agricultural embargo caused damage to the European agricultural market, affecting EUR 5.1 billion, but also gave a push to the development of the domestic agricultural production in Russia as manufacturers could ramp up production in order to replace the dropped volume of the goods and offer the customer a choice of local products.

There is one more important point to be made. Negative effect of economic sanctions on the oil and gas industry that led to the whole decline in the economy of Iran resulted in socio-political discontent and protests against policy of Ahmadinejad, whereas in Russia western economic sanctions have united the populace in the government’s anti-western stance: according to the Levada center, 85% of those polled supported Putin.

Apparently, there are three possible scenarios for Russia. First and the most preferable one, on the one hand, and the futuristic, on the other, is that all sanctions-senders unilaterally lift economic sanctions against Russia with their eyes closed in relation to Crimea and Sevastopol.

Second scenario implies that Russia holds talk with the West on partial/total lifting of sanctions, which is not quite realistic due to the fact that Russian economy’s decline does not show great effect of economic sanctions rather than oil price downfall and crisis of domestic policies. Simply, Russia might continue living under economic sanctions pressure.

Third one would probably swamp Russia into a nightmare. For example, European Union will decide to apply gas embargo and switch Russia off the SWIFT. However, depending on Russian gas by more than 30% Europe is not able to cut itself out of, let it say, the bloodstream.

To conclude, either Russia will live under sanctions or they will be lifted unilaterally. More than a year has passed after the first package of economic sanctions was adopted, no negotiations on this issue have been held, planned, or proposed though. However, if the U.S. has no concerns about Russian retaliatory sanctions, European Union is much likely to work on their lifting in order to bring up its agricultural sector and not let Russia blackmail it by the possible
Conclusion

This study has examined the effects of economic sanctions imposed by the western-led coalition on Russia and Iran, two major energy markets on their respective oil and gas industries. The study has confirmed that by targeting the Russian and Iranian oil and gas industries, economic sanctions have been used as tool of economic statecraft. That is, as a mean of changing their political behavior. In the case of Iran, the instigators have sought to prevent the Islamic Republic from acquiring nuclear weapons. As for Russia, they have tried to bring Putin to change his attitude in the Ukrainian conflict.

More importantly, it has shown that in measuring the effects of these sanctions, a focus on the policy processes and the adoption of a more relativist view of what constitute change can be more fruitful than applying a dichotomic view – success or failure – and putting an emphasis on policy outcome as many studies have done hitherto. Using Hall’s three-tiered order policy change that includes settings, instruments (lower levels) and radical change, we found that Iran experienced all three levels of policy change. At first, its government adopted new mechanisms or settings and introduced reforms or new instruments in the oil and gas industry in a bid to resist economic sanctions. Aware of the dependence on oil revenues, which growth came under threat of sanctions, Iran set up the budget, cut expenditures and took a greater control over sale of foreign currency needed to cover the deficit. Going through the second order of policy change, the Islamic Republic established National Development Fund for oil and gas sector’s investments support, made a great turn to Asia, signing a number of deals, and allowed transactions in national currency bypassing US dollar. Then it underwent radical change as the devastating effects of sanctions imposed not only by the
U.S., EU but also the UN and including the cut off from the SWIFT system and oil and gas embargo forced it to the negotiation table, and subsequently to renounce its military nuclear ambitions.

In Russia, policy change occurred only at the level of settings and instruments although sanctions were less broad than in Iran. The process of the first and second orders of change in Russia is very similar to that of Iran, albeit there is one distinctive feature: Russian government adopted retaliatory sanctions against agricultural goods that come from sanctioning countries. However, contrary to Iran the likelihood that Russia’s policy will undergo radical change is small. As Putin’s rating is growing and the population is ever united against the West, there is no internal need to shift Russian official position over the Ukrainian conflict. Likewise there is no credible external threat to Russia, unlike in Iran, as long as it keeps its status of great nuclear power and continues to have veto power within the UN Security Council.

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