SECOND REPORT OF THE HOUSE OF LORDS SELECT COMMITTEE ON ECONOMIC AFFAIRS

SESSION 2006-07

THE IMPACT OF ECONOMIC SANCTIONS

RESPONSE OF THE SECRETARY OF STATE FOR FOREIGN & COMMONWEALTH AFFAIRS

Presented to Parliament
By the Secretary of State for Foreign and Commonwealth Affairs
by Command of Her Majesty
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INTRODUCTION

(i) The Government welcomes the Select Committee's interest in the impact of economic sanctions. The Government has taken careful note of the conclusions and recommendations made by the Committee in its report. The Government shares the report's principal conclusion that economic sanctions can contribute substantially to achieving objectives when combined appropriately with other instruments of foreign policy.

(ii) The Government's responses to the specific conclusions and recommendations in the Committee's report are set out below. The Committee's conclusions are set out in bold type.

CONCLUSIONS AND RECOMMENDATIONS

Comprehensive UN Sanctions – Iraq 1990–2003

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. Iraq complied with most of what was demanded of it, even though the conditions imposed for the lifting of sanctions were extremely demanding. Paragraph 38

The Government does not share the view that Iraq eliminated its Weapons of Mass Destruction (WMD) stocks and production programmes unilaterally in 1991. This claim cannot be fully substantiated. Both Richard Butler, then Executive Chairman of UNSCOM, and Ambassador Celso Amorim, then Chairman of Panels set up by the Security Council to look into the status of disarmament, monitoring and verification, made clear in their reports of 15 December 1998 and 30 March 1999 respectively, the degree of Iraqi obfuscation and non-compliance which left large amounts of weapons material and documentation unaccounted for. In March 2003, UNMOVIC issued a 172 page document detailing "Unresolved Disarmament Issues". The document detailed at least 29 instances of Iraqi failure to provide credible evidence, and at least 17 occasions when inspectors uncovered evidence that contradicted the official Iraqi account.

In addition, the extent of Iraq's biological weapons programme only came to light in 1995 in information provided by Hussein Kemal following his defection to Jordan. It is extremely unlikely that this programme was dismantled in 1991, and Charles Duelfer of the US Government's Iraq Survey Group, concluded in his "Comprehensive Report of the Special Advisor to the DCI on Iraq's WMD" of September 2004 that the biological weapons programme was not abandoned until 1995. His over-arching conclusion was that Saddam Hussein was intent on maintaining the ability to resurrect Iraq's WMD programmes.

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. From late 2002 onwards, Iraqi co-operation was a product of trying to avert the threat of imminent invasion rather than secure the lifting of sanctions. Paragraph 44

The Government agrees that it is now clear that Saddam Hussein's regime generally only responded to sanctions when he and his government assessed that action might prompt some immediate alleviation in the sanctions regime or when sanctions were accompanied by a credible threat, or actual use, of force. This shows that the sanctions were biting and played a part in persuading the Iraqi regime to modify its behaviour, although their impact was not decisive enough to ensure full compliance with the demands of the international community.

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. Paragraph 46

The Government does not accept this conclusion as an inevitable outcome of sanctions policy. We were greatly concerned by the impact of sanctions on humanitarian conditions in Iraq and worked hard to limit them by supporting the creation of the Oil for Food Programme (OFF) and seeking improvements in its operation. The Independent Inquiry Committee referred to in the Report acknowledged that the Oil for Food Programme "reversed a serious and deteriorating food crisis, preventing widespread hunger and probably reducing deaths due to malnutrition… undoubtedly many lives were saved." Despite this the humanitarian situation in Iraq remained poor. This was not directly down to sanctions or a shortage of funds for the humanitarian exemption programme. Indeed, it was the Iraqi regime who opposed the creation of OFF when we first proposed it in 1991 and who remain squarely to blame for the misuse of resources which was instrumental in causing humanitarian suffering among the general population.

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. Paragraph 47

The Government accepts that Saddam Hussein's regime often used sanctions as a way of justifying its own legitimacy, and even turned aspects of sanctions to its advantage. We should not ignore the fact, however, that comprehensive economic sanctions in relation to Iraq helped to achieve the negation of its nuclear threat and substantial progress in the eradication of its chemical weapons

and ballistic missile capability. But while the regime's overall military capability was weakened, the regime managed to retain its internal control of resources and turn this into a propaganda advantage by manipulating the Oil for Food Programme. These actions may have appealed to the regime's natural supporters but it is not clear whether sanctions lead to increased levels of fundamental support for the regime.

Targeted and General EU Sanctions – Burma

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. Paragraph 52

The Government maintains that UK sanctions on Burma are targeted. The EU's economic sanctions on Burma, supported and enforced by the UK, only target named senior figures in the regime and their family members, as well as listed companies linked directly to the Burmese regime or military. These individuals and companies are singled out because they formulate, implement or benefit from policies that impede Burma's transition to democracy. Though HMG also discourages trade, investment and tourism in Burma by British nationals or companies, this is not a mandatory sanction but a government recommendation. There is no doubt that many ordinary Burmese are suffering economic hardship. But this deprivation is the direct result of the regime's economic mismanagement and the skewed allocation of resources, funding an 400,000 strong army while expenditure on health and education is less than $2 per annum per person.

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." Paragraph 54

The Government believes that sanctions, as part of the EU Common Position, are an expression of our disapproval of the regime and are intended to apply pressure for change. However, the government has not claimed that sanctions used in isolation are likely to bring about political change in Burma. The Government takes the view that targeted measures aimed at senior members of the regime and their associates, when applied in combination with the engagement of the UN and our international partners in the region, provides a clear incentive for substantial political change. We remain disappointed, however, that the Burmese regime has so far failed to respond to this incentive and the opportunities for engagement with the EU and the international community that it would bring.

The Government acknowledges that the exit strategy in the Common Position is not as explicit as we would like. However, the reasons for the establishment of the Common Position and the measures included therein are set out clearly in the Preamble Paragraph 3 of the current Common Position. Were the Government of Burma to enter into a genuine process of national reconciliation, respect human rights, release political prisoners, stop harassing the NLD and other political parties

and remove restrictions on international humanitarian and non-governmental organisations, the Council could consider the suspension of sanctions and a gradual resumption of co-operation with Burma under the terms of Paragraph 8.

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. Paragraph 56

The Government believes that our current policy towards Burma, as set out in the Common Position, remains appropriate. The EU Common Position as it currently stands has two strengths: firstly, it shows the Burmese regime that we condemn their actions towards their people, but, if the situation were to change, we would support the country on its road to democracy; secondly, it is a unified EU position – all 27 Member States are supportive of the measures. The alternative to a Common Position would be for Member States to pursue their individual policies, allowing the regime to exploit varying approaches within the European Union, politically and economically. It is expressly targeted on the regime's leaders and their economic interests, rather than the wider population. We shall continue to work with a range of other partners and in other fora to focus attention on Burma. We ensure that Burma remains on the agenda of multilateral fora (UN Security Council, UN General Assembly, Human Rights Council, International Labour Organisation, Asia-Europe and EU-ASEAN meetings) and we discuss Burma in our bilateral dealings with those countries exercising the greatest influence over Burma (China, India and ASEAN). The current policy has the support of all EU Member States and the National League for Democracy opposition movement.

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. Paragraph 57

The Government provides humanitarian assistance to meet the needs of the Burmese people. We are concerned by the humanitarian situation in Burma and the UK is the largest EU bilateral donor of humanitarian aid (£8m per annum), including work to improve access to basic education and on communicable diseases. There is no correlation between current sanctions and the humanitarian assistance provided by the UK and other donors, which is intended to address some of the needs of ordinary Burmese, not offset the impact of targeted sanctions. Given the limited access to large parts of the country, the unreliability of the government's economic and social data and the strict controls imposed by the authorities on civil society, it is not feasible to carry out a reliable assessment in the manner recommended, nor does the Government accept that the current targeted sanctions have significant humanitarian costs.

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. Paragraph 61

The Government's policy towards Burma has been established in response to the Burmese regime's failure to embrace democratic reform and respect human rights. Sanctions are only part of a wider approach, which we believe is the appropriate policy in support of our objectives in the country and

given the views of our EU partners. UK policy towards Burma, including the imposition of sanctions, is the subject of frequent Parliamentary debate. The EU's policy is already subject to internal review and the Government does not see the merit in holding a separate enquiry. The EU's internal review is carried out before all EU Member States agree the EU Common Position and the restrictive measures it includes on an annual basis. It was reviewed most recently on 23 April. All Member States agreed that the measures remained appropriate. In renewing these measures, the Council of the European Union "reaffirmed its willingness to consider the suspension of these restrictive measures and to substantively step up co-operation in response to substantial improvement in the political situation in Burma/Myanmar" (European Council Conclusions on Burma/Myanmar, 23 April 2007).

The issue of Burma/Myanmar was discussed at the EU-Asia Foreign Ministers' meeting (ASEM) in Hamburg on 28-29 May 2007. The Chair Statement issued at the meeting, which was agreed by all participants including the EU, China and India, stated that there had been "a frank exchange of views on the situation in Myanmar. The Meeting expressed deep concern on the lack of tangible progress in the declared transition towards a civilian and democratic government."

Targeted Financial Sanctions on Individuals and Groups

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. Paragraph 66

The government is committed to ensuring fair and clear procedures exist for placing individuals and entities on sanctions lists and for considering any requests to remove them. Significant improvements have been secured in recent years and we do not share the view that the procedures are inadequate. UN Member States are now required to provide a statement of case, explaining how the individual or entity meets the criteria, when proposing names to a UN Committee. Another significant improvement was the establishment by the Security Council of a UN focal point for processing de-listing requests in late 2006 in Resolution 1730 (2006). We have consistently supported robust language on improving procedures, such as in the World Summit Outcome document and during a Security Council debate on international law in 2005.

At the EU level, revised procedures for autonomous terrorism and country-specific sanctions regimes were agreed earlier this year. More rigorous mechanisms have been established to ensure targeted individuals and entities are notified in the Official Journal of the actual and specific reasons justifying their listing and provided with an opportunity to make their views known. The Council will then take these views into account as part of the decision making process. In addition, persons or entities subject to sanctions at EU level have the opportunity to challenge their listing in the Community Courts.

The evidence suggests that the amounts of frozen money 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. Paragraph 68

The detection and disruption of terrorist and proliferation financing is a key element of the UK's counter-terrorism and proliferation strategies and requires close co-operation at the national, regional and international level. Asset freezing remains an important tool in constraining the ability of listed individuals and entities to operate freely in international financial markets. The amount of frozen assets held in the UK is relatively small but world-wide the figures are significant. Over $94 million of assets belonging to Al-Qaeda and the Taliban has been frozen in 34 different countries and is no longer available to fund terrorism.

We do not share the view, therefore, that asset freezes are ineffective as a means of inhibiting or changing behaviour. The overall disruptive effect and promotion of a hostile environment is often just as important as the amount of funds frozen, and creates an additional cost for terrorists in having to find less economic and more cumbersome ways of moving funds. This in itself erodes the levels of funds available to terrorists. The freezing of assets in country specific sanctions regimes often brings home the personal cost involved to an individual and can give some comfort, or sense of justice, to the oppressed or those calling for change.

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. Paragraph 69

The Government welcomes the Committee's view that targeted financial sanctions continue to be a tool for tackling terrorism. Funds can be moved in a variety of ways, including the formal banking system, wire transfers, money transfer companies, cash couriers and informal or alternative remittance systems. However, the methods used by terrorists to raise and move money are constantly evolving in line with terrorists' own re-assessment of the risk. The movement of money gives us opportunities to combat terrorism either by disrupting that movement and thereby preventing terrorist activity (such as asset freezing) or by following the flow of funds and thereby tracking the terrorists. The regulation and oversight associated with sanctions creates a 'hostile environment' making it harder for terrorists to operate, increasing the time needed to orchestrate an attack and the risk of doing so. This widens the window of opportunity for the police and agencies to detect and investigate terrorists. And while arrest and prosecution remain the primary goal of our counter-terrorism policy, it remains important that terrorists are pursued on all available tracks.

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. Paragraph 73

The Government welcomes the endorsement by the Committee of the EU's stance on the extra-territorial application of US sanctions legislation. Assertions of extraterritoriality represent a threat to British business interests by imposing unnecessary burdens on business by requiring them to comply with possibly conflicting rules. They create added uncertainty for companies operating internationally, and weaken the framework of international trade and investment.

The existing measures available under EU and UK law appear to us to provide a sufficient legal basis for an effective response to US extraterritoriality: what is required is the political will to address this issue. Paragraph 75

The Government shares the view that no additional legal basis is necessary for an effective response to US extraterritoriality. We are determined to protect the interests of British business both through the application of EC Regulation 2271/96 and through co-operation and dialogue with the US authorities.

Targeted Commodity Sanctions

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. Paragraph 81

The Government is constantly looking at ways to strengthen processes that monitor and enforce targeted commodity sanctions, such as those imposed on Liberian rough diamonds and timber. The sanctions regime imposed on Liberia under UN Security Council Resolution 1521 (2003) included a regime for monitoring and reporting by a Panel of Experts. A similar monitoring group was established for Cote d'Ivoire. Their reports have proved invaluable in identifying weaknesses in control processes and assisted in identifying where sanctions violations have occurred. They remain our best line of defence. In addition, the prospect of suspension of the measures proved instrumental in encouraging the necessary reforms from the Liberian government in improving the management and transparency of timber exports.

The UK has proposed in the past that a dedicated monitoring team be set up at the UN with the mandate of permanently monitoring sanctions. However, this has not met with wider consensus among all Security Council members. In the meantime the role of the monitoring teams has evolved into a more effective and authoritative system of monitoring sanctions implementation. However, in recognition of the role of some key resources in recent conflicts, we have given strong support to the holding of a Security Council debate on this topic, so that the international community can understand it better.

The Kimberley Process (KP) is a successful example of a commodity certification scheme. Since its introduction the KP is estimated to cover more than 99% of the total worldwide trade. The KP and the UN have shown effective co-operation with regard to UN diamond sanctions on both Liberia and Cote d'Ivoire. These levels of co-operation and information-sharing were also in evidence during the recent KP review Mission to Ghana, which included a member of the UN Panel of Experts on Cote d'Ivoire. We would encourage continued co-operation in expertise on similar areas in the future. Sanctions have had a particular effect in levering progress from countries towards meeting KP standards, such as in relation to Liberia.

UK Sanctions Policy: Principles and Practice

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. Paragraph 84

The Government believes targeted financial sanctions have proved valuable in disrupting terrorist activity and constraining the ability of listed individuals and entities to operate freely in international financial markets. We believe the overall disruptive effect and promotion of a hostile environment has proved an important factor, in addition to the amount of funds frozen.

We have rigorous domestic procedures for scrutinising listing proposals from a policy and legal perspective and ensuring that information justifying a listing is from credible sources. In line with the 2005 World Summit Outcome, the Security Council has taken a number of steps to ensure that fair and clear procedures exist for placing individuals and entities on sanctions lists. Statements of case are now required for all listings considered by the various UN Sanctions Committees who can decide to make this information publicly available. For example the Sudan Sanctions Committee has included the justifications for listing individuals on its consolidated list.

The EU has recently adopted more rigorous listing procedures to ensure targeted individuals and entities are notified of the actual and specific reasons justifying the listing and provided with an opportunity to make their views known, which will then be factored into the decision-making process. All these improvements play an important part in ensuring that individuals or entities are not listed on weak or insubstantial grounds.

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. Paragraph 85

The Government's announcement to Parliament on 15 March 1999 of the Whitehall Review of sanctions policy noted that "comprehensive sanctions should be reserved for cases where the objective is to isolate and contain a very serious transgressor". We would not, therefore, rule out the future use of comprehensive sanctions if we believed it was in the interests of the UK and the international community. We recognise that the imposition of comprehensive sanctions will have humanitarian costs, particularly where the targeted regime exercises control over available resources. In such cases, humanitarian exemptions can make a contribution towards alleviating the suffering caused by a regime's economic mismanagement. The OFF programme is a case in point in that it delivered clear humanitarian benefits to the general population. But there are no comprehensive sanctions in force at the moment, nor are we actively considering the introduction of any such regimes.

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. 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. Paragraph 91

The Government is committed to requesting humanitarian assessments by the UN Secretariat before, during and after the imposition of comprehensive sanctions but does not believe this should be an automatic requirement for any sanctions regime in which the UK is involved. By definition, targeted measures are designed to hit a particular regime, group or terrorist organisation and as such have little or no impact on the general population. In such circumstances we do not see the merit in requesting automatic humanitarian assessments.

There may be occasions when targeted trade sanctions, such as a mandatory investment ban in a particular sector, could have an adverse impact on humanitarian conditions. The UN has carried out humanitarian assessments in Liberia, Sudan and Afghanistan in the past, but the task is often complicated by the difficulties in determining the current status of humanitarian conditions and distinguishing between the effects of sanctions and other factors in conflict zones or failing states. In such instances the value of conducting a humanitarian assessment will need to be carefully assessed on a case by case basis. Such assessments would be confidential to the UN and not intended for public disclosure.

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. Paragraph 95

The Government strongly disagrees that it has an incomplete commitment to adopting clear and realistic objectives and an exit strategy before sanctions are imposed. In fact our track record suggests otherwise. All UN sanctions resolutions since the Whitehall Review have contained clear objectives and criteria for the termination of measures. In a recent example, UN sanctions against the DPRK were agreed swiftly in October 2006 but without any compromise of the principles in the Whitehall Review. UN Security Council Resolution 1718 contained clear objectives and criteria for the suspension of measures and there has since been significant progress in relation to the DPRK and its engagement with the international community.

EU sanctions regimes are designed to bring about a change in policy or activity, uphold clear CFSP principles and reinforce norms of behaviour such as human rights, good governance and the rule of law, although exit strategies have not always been as explicitly stated as we would like. In the recent cases of Iran and DPRK, policy makers have given considerable thought to the role of sanctions in contributing to a twin-track approach to achieving objectives.

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. Paragraph 98

The Government agrees sanctions policy is more likely to be effective if accompanied by an appropriate system of monitoring and control. The UN Sanctions Committees have become more sophisticated at monitoring implementation, particularly where they are assisted by a panel of experts. These panels are able to draw on information from a wide range of sources and highlight alleged breaches of sanctions to the relevant Committee.

There is always scope for improvement, however, and the government hopes that the conclusions of the Security Council's Informal Working Group on sanctions issues can form a good basis for discussing further improvements to monitoring and enforcement. There already exists a body of permanent expert staff in the UN Secretariat which is dedicated to supporting the Security Council's role in sanctions work.

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. Paragraph 99

We welcome the recognition (paragraph 96) of the Government's track record of being at the forefront of developing procedures for the effective implementation and enforcement of sanctions. All UN sanctions regimes are subject to careful periodic review by the Security Council, drawing on information provided by monitors from both within and outside the UN system. We are keen to increase the role of independent monitors and NGOs and remain committed to robust sanctions implementation and enforcement.

We do not intend to hold regular Parliamentary reviews of sanctions policy because sanctions are already frequently raised in Parliament in the context of oral and written questions or adjournment debates. But we also wish to respond as constructively as possible to the need for more information and scrutiny of sanctions policy. The Government therefore intends to expand its annual Written Ministerial Statement to Parliament outlining current sanctions regimes in force to include the objectives for each sanctions regime. We will, of course, continue to submit EU Common Positions and Regulations relating to sanctions for Parliamentary scrutiny.

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. Paragraph 104

It is true that sanctions will sometimes impose direct and opportunity costs on British business. Inevitably, we cannot impose sanctions without sharing some of the burden. We do not share the view that some sanctions policies are not well founded. We are determined to ensure all sanctions regimes contain the clearest possible objectives for the termination of measures, or in the case of EU autonomous sanctions, set out as explicitly as possible the principles of the CFSP, such as human rights, good governance or the rule of law, which targeted regimes are expected to meet.

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. Paragraph 109

The Government fully agrees with the conclusion that economic sanctions in isolation are extremely unlikely to force a target to make major policy changes, especially where relations between the States involved are hostile more generally. This is why we have pursued for example a twin track approach by supporting the six party talks with the DPRK and the E3 process with Iran, which lead to the proposals for a long term agreement with Iran which were unanimously endorsed by the Security Council in Resolution 1747 (2007).

There may be occasions where economic sanctions by themselves prove counter-productive. The point of sanctions is to build the pressure on targeted States to change their behaviour, and this can often best be achieved by pursuing a coherent diplomatic course in tandem or, as a last resort, considering military action. But we do not accept that on most occasions sanctions will play a subordinate role to other instruments.

Nor do we apply economic sanctions for purely symbolic purposes to signal disapproval, although this may be a secondary factor. We are committed to the principle that measures should be proportionate to the objective of persuading the targeted State to change its behaviour, and recognise that economic sanctions may sometimes be required to achieve this.

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

The Government fully accepts this conclusion as a central element of our foreign policy. It is particularly true where States are keen to be accepted by the international community and avoid the “pariah” status that is often attached to the imposition of sanctions. In these cases the overall impact of economic sanctions in persuading a State to change its behaviour can often be bigger than the sum of the individual measures imposed.

Implications for Policy Towards North Korea and Iran

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. Paragraph 118

The government is committed to multilateral action to persuade the DPRK to comply with the demands of the international community and legal obligations in UN Security Council Resolution 1718. The adoption of targeted sanctions against the DPRK shows how concerted international action can help bring about a change in behaviour. The return of the DPRK to the negotiating table followed political and diplomatic efforts reinforced by sanctions. We support the 13 February Agreement but will not consider the suspension of sanctions until the DPRK has made substantial progress towards meeting the criteria in UN Security Council Resolution 1718.

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. Paragraph 120

The August 2005 draft Framework Agreement was part of a deliberate twin track approach combining both increasing pressure (at that time delivered through the IAEA and the threat of reporting Iran's long-standing and well-documented non-compliance with its Safeguards Agreement to the UN Security Council) and the offer of a mutually beneficial long-term agreement which would address international concerns regarding Iran's nuclear intentions. The proposal was from the "E3/EU" (the United Kingdom, France and Germany, with the support of the EU High Representative). It was not a proposal formally endorsed by the EU as a whole, although the EU has publicly expressed its support for the overall approach of which the August 2005 proposal formed a part.

The United States equally was not in a position formally to support the August 2005 proposed Framework Agreement, but had also formally supported the then E3/EU process, and contributed substantively to it in March 2005 when it agreed to lift its veto on commencement of accession negotiations by Iran to the WTO, and its undertaking to ease its long-established embargo on provision of aviation parts. The proposal therefore enjoyed the implicit support of the United States even though it was not in a position formally to associate itself with the proposal. Iran was well aware of this when the proposal was made.

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. Paragraph 123

The Government does not accept the description of the June 2006 proposal made by the "E3+3" (the United Kingdom, France and Germany with the support of the EU High Representative, China, Russia and the United States) as a "watered down" version of the August 2005 paper. It focuses on the areas which might be covered by a long term agreement without going into the same degree of detail as the August 2005 proposal, but covers almost identical ground. Indeed, the 2006 proposal goes further in some key areas of interest to Iran, such as civil aviation, telecommunications and agriculture, which had not been possible to address in 2005 because the US was not involved in the preparation of the proposal. The proposal is not intended as exhaustive, and were Iran to suggest discussion of security assurances during any negotiations, this could be accommodated.

The need for explicit text on security assurances in this outline proposal had been overtaken by the clear and repeated public statements by the United States that, while not ruling out the possibility of taking military action, it was not considering military action and was committed to a diplomatic solution, and subsequently that its policy towards Iran is aimed at behaviour change, not regime change.

We believe that the United States' explicit involvement in the preparation and presentation of the June 2006 proposal is ample evidence of its commitment to the search for a negotiated solution, based on a long-term agreement giving the international community the assurances it needs of Iran's nuclear intentions and giving Iran the assurances it needs to underpin its future development.

Reliance on sanctions as the main means of resolving the current disputes with North Korea and Iran appears to be a recipe for failure. Paragraph 124

The government believes that the role of sanctions in countering threats to international peace and security should not be underestimated. They can have a significant impact in changing behaviour when carefully calibrated as part of a twin track strategy offering a mutually beneficial outcome. In the case of Iran, it has not yet taken the decision to respect its international obligations, but the unanimous adoption of two UN sanctions resolutions has stoked internal debate about the wisdom of choosing confrontation with the international community.

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 co-ordinated with verifiable, reciprocal steps by North Korea and Iran. Paragraph 126

The Government believes that the prospects of success will be maximised by the twin-track approach of broader international initiatives or incentives and a coherent sanctions policy. The latter will continue to be a key element in contributing to any solution that emerges but it is not yet clear whether the DPRK and Iran will engage constructively and substantively with the packages on offer.

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