

## Over reliance on sanctions will not help anyone's cause

By Adam Smith

Donald Trump, the first US President with neither government nor military experience, is likely to be an American leader unlike any other.

However, in at least one way, we can expect continuity: President Trump will maintain the trend that began under George W. Bush, and increasingly rely on economic sanctions as a tool of foreign policy. Since 2000, there has been a nearly 300 per cent increase in sanctions programmes in the US, with a commensurate increase in complexity in implementation, enforcement and compliance — and Trump's actions in his first month of office already suggest a continuation of the trend.

Common sense would suggest that growing usage by the US — alongside an increasing reliance on sanctions in the European Union, the UN and even, as a retaliatory measure, in "targets" of sanctions like Russia — will lead to diminishing returns for the use of sanctions.

The rise of non-dollar/non-euro-based economic activity (so as to avoid US and EU jurisdiction) and the growing reality of "de-risking" — in which financial institutions stung by astronomical fines for noncompliance increasingly refuse to provide banking services to "questionable" entities, who may not yet be sanctioned, but soon could be — demonstrate the logical consequences of nearly two decades of enthusiastic overuse.

Despite all this, Trump's attraction to sanctions (like that of his predecessors) is easy to understand. The politician Trump will be attracted to the fact that there are a few limits to his use of the tool. The bureaucrat Trump will be frustrated by the absence of other coercive tools.

And the businessman Trump may reflexively reject the trade quashing aspects of "blacklisting" companies. However, at the end of the day, he will

be convinced by the price: sanctions are free to the US government.

The reality that Trump has already begun to analyse Iran through a lens of sanctions places the nuclear deal (the JCPOA) in a precarious balance. After all, candidate Trump during his campaign promised to "rip up" the deal. However, the Administration's first sanctions response to Iranian provocations demonstrated an often-underappreciated fact about sanctions: while the ubiquity of sanctions can dull their impact, the complexity of sanctions can actually encourage moderation in approach.

While it is still possible that Trump will overreach in imposing sanctions on Iran, and pressure the JCPOA to such a degree that it collapses, that is not what has happened so far. The new sanctions targeted 13 individuals and 12 corporations for a range of non-nuclear activities including supporting terrorism.

Of note, Trump did not sanction any Iranian government ministries, Iranian banks, major Iranian corporations or even economic sectors — in short, he kept the JCPOA sanctions relief in place. Had he moved to more broadly reimpose sanctions, the consequences — diplomatically, economically and politically — were unknown.

Indeed, the complexity of the sanctions system that President Obama created means that the Trump Administration will face numerous challenges if it chooses to depart from sanctions relief that the Obama Administration negotiated. US allies will be unlikely to go along with any return to pre-relief sanctions.

Such a move would also increase instability in the Middle East — a region from which Trump had promised to further extricate the US — and compound the uncertainty posed by Iran's upcoming presidential elections. Further, President Trump would have to be willing to risk high-paying

and sought-after manufacturing jobs, many of which are at least partly secured at US aerospace companies via future sales to Iran that have already been authorised.

This same forced moderation will likely be the case with Russia, where the concern is not a potential overuse of sanctions but a hasty retreat by President Trump. President Obama built a highly complicated, inter-linked set of sanctions regimes to address Russian actions in Ukraine, Syria and cyberspace.

Fears of Trump's quick dismantling of "Russian sanctions" regimes give way to the reality that in order to do so, Trump would need to address five separate sanctions programmes, with unknown consequences to removal.

In short, the complex and interlocking web of sanctions — including an ever-growing alphabet soup of global sanctions enforcement authorities and increasingly built-in assumptions by businesses, banks and countries that sanctions will continue to be used — means that the tool will not just survive President Trump, but will likely thrive well into the term of whoever becomes the 46th president of US.

*The writer is a Partner at Gibson, Dunn & Crutcher LLP and former adviser to President Obama.*