ISSUE BRIEF

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THE ECONOMIC AND SECURITY FALLOUT OF U.S. SANCTIONS ON IRAN: ASSESSING RUSSIA'S STRATEGIC ROLE

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(Views expressed in the brief are those of the author, and do not represent those of ISSI)

For many years, U.S. sanctions against Iran have been a key component of Washington's foreign policy, particularly after Tehran's nuclear programme became a major international concern. Over time, the scope of these sanctions has expanded to include Iran's energy sector, financial system and trade networks. These measures are intended to restrain Iran's nuclear ambitions, limit its regional influence, and pressure Tehran to change its strategic conduct.

Beyond their intended objectives, these sanctions have significant economic and security consequences. For Iran, sanctions have increased economic hardship and constrained its regional and defence activities, forcing Tehran to adapt rather than absorb the pressure. For the United States, sanctions have long served as a tool to apply pressure without direct military engagement.[1] The direct military confrontation between the U.S. and Iran in 2026 altered this dynamic, although sanctions have remained a key component of U.S. policy toward Tehran. Russia, for its part, treats the sanctions regime as both an opportunity and a risk, using it to deepen ties with Tehran while managing its own exposure to Western pressure.[2]

1 Clayton Thomas, "U.S. Sanctions on Iran," Congressional Research Service, August 19, 2025, https://www.congress.gov/crs-product/IF12452

2 Nikita Smagin, "Simmering U.S.-Iran Conflict Is Moscow's Ideal Outcome," Carnegie Endowment for International Peace, June 24, 2026, https://carnegieendowment.org/russia-eurasia/politika/2026/06/russia-reaction-iran-us-deal

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This brief examines the economic and security effects of U.S. sanctions on Iran and assesses Russia's strategic role within this context. It argues that Russia–Iran cooperation is institutionally structured but operationally tactical: formalised through binding agreements, yet constrained in practice by capacity and circumstance rather than by the absence of formal commitment. This brief only covers developments up to July 2026.

Economic Fallout of U.S. Sanctions on Iran

Iran's oil exports, the backbone of its economy, suffered a sharp decline in 2026, driven more by the military conflict between Iran and the U.S. that began in February than by sanctions alone. By April 2026, Iranian crude oil exports transiting the Strait of Hormuz had fallen to around 530,000 barrels per day, down 1.1 million barrels per day month-on-month, as a U.S. naval blockade compounded existing sanctions enforcement. Foreign exchange reserves were tightened and this decline directly impacted government revenue.[3] According to the IMF's April 2026 World Economic Outlook, Iran's economy was projected to contract by 6.1 percent in 2026, with inflation approaching 69 percent.[4]

As diplomacy progressed, the situation changed. The Islamabad Memorandum of Understanding, named for Pakistan's mediation role in the discussions, was signed on June 17, 2026, by the U.S. and Iran. It called for the reopening of the Strait of Hormuz and a 60-day framework for negotiating a comprehensive settlement while the ceasefire remained in effect.[5] Five days later, the U.S. Treasury issued General License X, authorising Iranian oil sales for sixty days.[6] The impact was quantifiable: the International Energy Agency confirmed that the U.S. lifted restrictions specifically on Iranian oil exports under the June 18 memorandum of understanding, even as Iran's OPEC-reported crude production held flat at around 2.3 million barrels per day through May and June, indicating that any easing of Iran's export constraints came from the removal of the blockade itself, rather than a rise in Iranian output.[7] This suggests that the recovery was driven by diplomatic engagement with the U.S. rather than outside financial assistance. Together, these figures point to a wartime economic shock layered atop a long-standing sanctions regime, rather than a single, uniform cause.

3 "Oil Market Report - May 2026," International Energy Agency, May 13, 2026, https://www.iea.org/reports/oil-market-report-may-2026

4 "World Economic Outlook: Global Economy in the Shadow of War," International Monetary Fund, April 2026, https://www.imf.org/en/publications/weo/issues/2026/04/14/world-economic-outlook-april-2026

5 "The 14-Point U.S.-Iran Pact White House Sent to Congress," Reuters, June 18, 2026, https://www.reuters.com/world/middle-east/14-point-draft-us-iran-deal-2026-06-17/

6 "Issuance of Iran-Related General License," U.S. Department of the Treasury, Office of Foreign Assets Control, June 22, 2026, https://ofac.treasury.gov/recent-actions/2026062233

7 "Oil Market Report - July 2026," International Energy Agency, July 10, 2026, https://www.iea.org/reports/oil-market-report-july-2026

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Security Fallout of U.S. Sanctions on Iran

Through 2026, the U.S. maintained sanctions on Iran's missile and drone procurement networks. The U.S. Treasury's Office of Foreign Assets Control (OFAC) designated fourteen individuals, entities, and aircraft based in Iran, Türkiye, and the United Arab Emirates on April 21, 2026. They were identified as part of procurement networks supplying missile propellant precursors and components for Iran's Shahed-series attack drones. The Treasury Department described this as its fifth round of nonproliferation designations since the United Nations reimposed sanctions on Iran on September 27, 2025. These measures were intended to prevent Iran from rebuilding its ballistic missile stockpiles.[8]

According to assessments cited by the Council on Foreign Relations, Iran retained around 70 percent of its prewar missile stockpile as of mid-2026 and had restored access to thirty of its thirty-three missile sites near the Strait of Hormuz despite this sustained sanctions pressure. This suggests procurement sanctions restricted Iran's capacity to expand its arsenal without erasing the pre-2026 stockpile.

This year, Iran's security posture changed more directly as a result of military combat than sanctions. Iran's Supreme Leader and senior military leaders were assassinated in strikes by the U.S. and Israel starting on February 28, 2026. This led to widespread Iranian missile and drone retaliation against Israel and American military installations in Gulf states. On April 8, 2026, a conditional ceasefire was announced.[9] Direct military action and sanctions thus worked differently: the conflict caused immediate, serious harm to Iran's weapons programmes, while sanctions hampered its longer-term recovery.

Russia's Strategic Role

Amid growing U.S. sanctions, Russia has become one of Iran's principal strategic partners across the economy, energy, and security domains, formalised through the 20-year Comprehensive Strategic Partnership Treaty signed in Moscow on January 17, 2025. The treaty establishes no mutual defence commitment, and its security provisions closely track a 2001 predecessor, indicating that it formalises an already-developing relationship rather than substantively deepening it.[10]

8 "Economic Fury Targets Iranian Missile and UAV Procurement Networks," U.S. Department of the Treasury, April 21, 2026, https://home.treasury.gov/news/press-releases/sb0465

9 "Iran's War with Israel and the United States," Council on Foreign Relations, updated June 22, 2026, https://www.cfr.org/global-conflict-tracker/conflict/confrontation-between-united-states-and-iran

10 Nicole Grajewski, "New Russia-Iran Treaty Reveals the Limits of Their Partnership," Carnegie Endowment for International Peace, January 21, 2025, https://carnegieendowment.org/russia-eurasia/politika/2025/01/russia-iran-strategic-agreement

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Energy cooperation shows a similar gap between announcement and delivery. President Vladimir Putin has floated a gas pipeline via Azerbaijan with a stated long-term goal of 55 billion cubic metres and initial annual deliveries of up to 2 billion cubic metres, yet existing transit infrastructure operates well below this scale and Iran's own seasonal shortfall is several times the proposed volume, placing large-scale supply years away rather than imminent.[11]

Trade tells a similar story. Bilateral turnover rose 13.1 percent in the first eleven months of 2025 to reach $4.8 billion, according to Russian Energy Minister Sergey Tsivilyov,[12] far short of the $40 billion annual target the two countries announced in 2022.[13] This shortfall reflects Russia's own constraints as much as any deliberate limit on the relationship. Since 2022, Moscow has directed most of its available resources toward the conflict in Ukraine, leaving less capacity for major new commitments to Iran.[14]

Implications for Pakistan

Pakistan's exposure to the U.S. sanctions regime is clearest in the long-stalled Iran-Pakistan gas pipeline. Citing secondary-sanctions risk and declining demand, Pakistan told Iran in January 2026 that it intended to abandon the project, conditioning any resurrection on a U.S. waiver and lower volumes. Any Pakistani institution trading energy with Iran remains exposed regardless of Islamabad's own choices.[15] Separately, Pakistan's Hormuz-transiting oil imports cover only 10–14 days of reserves, which prompted a post-conflict proposal for strategic petroleum reserves.[16] [17] A further risk lies along Pakistan's roughly 900-kilometre border with Iran, running through Sistan-Baluchestan and Balochistan, where insurgent activity persists despite May 2026 border-management talks.[18]

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11 "Iran Eyes Russian Gas," Arab Gulf States Institute, May 7, 2025, https://agsi.org/analysis/iran-eyes-russian-gas/

12 "Russia-Iran Trade Turnover Up 13.1% in 11M 2025," TASS, February 18, 2026, https://tass.com/economy/2088433

13 "Iran and Russia's Gazprom Sign Primary Deal for Energy Cooperation," Reuters, July 19, 2022, https://www.reuters.com/business/energy/iran russias-gazprom-sign-primary-deal-energy-cooperation-2022-07-19/

14 "Russia's War in Ukraine: The Next Chapter," Center for Strategic and International Studies, September 30, 2025, https://www.csis.org/analysis/russias-war-ukraine-next-chapter

15 "Pakistan Seeks to Abandon Iran Gas Pipeline Project Due to Low Demand and U.S. Sanctions," Pipeline Technology Journal, January 15, 2026, https://www.pipeline-journal.net/news/pakistan-seeks-abandon-iran-gas-pipeline-project-due-low-demand-and-us-sanctions

16 Abida Naurin, "World Oil Price Volatility, Middle East Geopolitics, and Pakistan's Inflation Dynamics," Pakistan Institute of Development Economics, accessed July 23, 2026, https://pide.org.pk/research/world-oil-price-volatility-middle-east-geopolitics-and-pakistans-inflation-dynamics/

17 "Pakistan Plans Oil Reserves, Storage Push as Hormuz Constraints Expose Vulnerabilities," The Express Tribune, May 27, 2026, https://tribune.com.pk/story/2610182/pakistan-plans-oil-reserves-storage-push-as-hormuz-constraints-expose-vulnerabilities

18 "Implications of Prolonged Unrest in Iran for Pakistan," The Diplomat, March 3, 2026, https://thediplomat.com/2026/03/implications-of-prolonged-unrest-in-iran-for-pakistan/

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Pakistan's most significant role, though, has been as mediator between Washington and Tehran. It hosted the first direct high-level U.S.-Iran talks since 1979 and is credited with brokering the Islamabad Memorandum of Understanding.[19] This is a diplomatic asset that partly offsets the sanctions and energy risks outlined above.[20]

Policy Recommendations

General License X was itself revoked barely two weeks after issuance: following renewed Iranian attacks on commercial tankers in the Strait of Hormuz and U.S. retaliatory strikes, OFAC replaced it on July 7, 2026 with a narrow wind-down authorisation, General License X1, which lapsed in turn on July 17, 2026.[21] This reversal shows that a single, broad, time-limited waiver cannot anchor durable relief. The U.S. Treasury should instead structure future sanctions easing as a conditional, tranche-based mechanism released incrementally against verified compliance benchmarks, contingent on Iran's compliance with the Islamabad Memorandum's nuclear commitments and confirmed International Atomic Energy Agency (IAEA) access to enrichment sites.

Iran's negotiators should turn the stockpile-reduction clause in the June 2026 agreement into a binding schedule monitored by the IAEA with quarterly benchmarks. Meeting these benchmarks would provide the clearest path to lasting sanctions relief.

Russia's energy ministry should finalise concrete pricing, financing, and construction timelines for the Azerbaijan gas pipeline, the step still needed to move the project from announcement to delivery.

Pakistan's Ministry of Energy should submit a sanctions waiver request to the U.S. Treasury for the Iran-Pakistan gas pipeline, emphasising its domestic-only purpose. Pakistan should also seek observer status in the Joint Maritime Information Center's Strait of Hormuz coordination mechanism.

Conclusion

U.S. sanctions have damaged Iran's currency, banking access, and oil revenue, though the 2026 conflict caused more sudden damage than sanctions alone. Iran has adapted rather than collapsed, shifting toward informal trade and relying on its existing missile stockpile rather than new procurement.

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19 "How Pakistan Became the Iran War's Unlikely Peace Negotiator," Council on Foreign Relations, April 28, 2026, https://www.cfr.org/articles/how-pakistan-became-the-iran-wars-unlikely-peace-negotiator

20 "Pakistan Diplomatic Moment must not be Squandered," Dawn, July 1, 2026, https://www.dawn.com/news/2012231

21 "Issuance of Amended Iran-Related General License," U.S. Department of the Treasury, Office of Foreign Assets Control, July 7, 2026, https://ofac.treasury.gov/recent-actions/20260707

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Russia's role has been institutionally structured but operationally tactical. The 2025 treaty gave the relationship a formal legal shape, yet implementation in trade, gas cooperation, and material support has consistently lagged behind the agreements' stated ambitions, constrained more by Russia's own capacity than by any absence of formal commitment.

For Pakistan, this period has brought both exposure and opportunity: sanctions risk tied to the stalled gas pipeline and the Hormuz disruption, alongside a mediating role that has given Islamabad real diplomatic weight.

Sanctions have constrained Iran without forcing capitulation. Russia, meanwhile, has formalised its partnership with Iran without substantially offsetting what sanctions and conflict have cost it.

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