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The Iran Refined Petroleum Sanctions Act

The Iran Refined Petroleum Sanctions Act is a critical piece of legislation aimed at preventing the Iranian regime from acquiring nuclear weapons. The legislation seeks to reinforce diplomatic efforts with the possibility of tougher sanctions—limiting Iran’s ability to import and produce refined petroleum products such as gas and diesel—if Iran rejects U.S. overtures and continues to enrich uranium in defiance of the international community. The legislation reflects America’s determination to exhaust all diplomatic, economic and political measures to pressure the Iranian regime to abandon its nuclear weapons program.

Q: What is the Iran Refined Petroleum Sanctions Act?

A: The Iran Refined Petroleum Sanctions Act is a bill containing provisions aimed at supporting diplomatic engagement with Iran and showing strong bipartisan backing for the president to implement tougher sanctions if Iran fails to suspend its nuclear program. The legislation seeks to limit Iran’s ability to import and produce refined petroleum (such as gasoline used in vehicles) by requiring the president to impose sanctions on companies providing refined petroleum to Iran, or helping Iran expand its own refining capacity. Shipping companies that transport the refined petroleum to Iran and their insurers are also targeted by the legislation, which was introduced in the House by House Foreign Affairs Committee Chairman Howard Berman (D-CA) and Ranking Member Ileana Ros-Lehtinen (R-FL) and in the Senate by a broad group of 27 senators. The lead Democrat is Evan Bayh (IN) and the lead Republican is Jon Kyl (AZ).

The sanctions in the bill would bar identified entities from carrying out any business in the United States. This would force the banks, shipping and insurance companies that service and support Iran’s refined petroleum activities to choose between doing business with Iran or the United States.

The legislation also urges the president to impose sanctions on the Central Bank of Iran and any financial institution engaged in proliferation activities or support of terrorist groups.

Q: Why should Congress consider the Iran Refined Petroleum Sanctions Act while the administration is trying to engage with Iran?

A: U.S. intelligence agencies estimate that Iran, in a worst case scenario, may be capable of producing a nuclear weapon as early as next year. The United States and the international community must do everything possible now to impress upon Iran the crippling sanctions it will face for continued intransigence. As the United States pursues diplomatic engagement with Iran, it is crucial that the leadership in Tehran understand the consequences it will face if Iran does not suspend its nuclear program as required under international law.

Q: Why does the legislation focus on refined petroleum?

A: Despite sitting on some of the largest oil and natural gas reserves in the world, Iran's economy is very vulnerable. Iran must import 40 percent of its refined petroleum—gasoline and diesel—because it lacks sufficient domestic refining capacity. The high cost of importing gasoline, combined with large price subsidies given to Iranian citizens, has forced Iran to ration gasoline, a decision that was met with protests and riots at gas stations. Limiting the country's access to refined petroleum could have a crippling effect on the Iranian economy, forcing the regime to confront a real choice: continue its illegal nuclear program and risk economic ruin or suspend the program and open the door to relief from sanctions. Targeting the refined petroleum sector is the next logical step after years of milder sanctions.

Q: Won't the legislation undermine President Obama's efforts to engage Iran?

A: To the contrary, the legislation seeks to complement diplomatic efforts by providing an additional incentive for Iran to suspend its nuclear program in accordance with multiple U.N. Security Council resolutions. Diplomatic efforts with Iran are more likely to be effective if the president is empowered with the explicit bipartisan backing to impose additional sanctions on the government of Iran as envisioned in this legislation. Defense Secretary Robert Gates recently said engagement with Iran would have a better chance of success if backed with sanctions. "[P]erhaps if there is enough economic pressure placed on Iran, diplomacy can provide them an open door through which they can walk if they choose to change their policies..." Gates said. Secretary of State Hillary Clinton has also voiced support for increased sanctions if engagement fails. "[W]e know that if we're not successful in moving toward those objectives, that we have to impose even tougher sanctions," Clinton told a recent congressional hearing.

Q: Does the Obama administration support the legislation?

A: The Obama administration has not stated a position on the bill, as is typically the case during the early stages of the legislative process. However, then-Senator Obama expressed during the presidential campaign his support for targeting refined petroleum sales, saying "if we can prevent them from importing the gasoline that they need and the refined petroleum products, that starts changing their cost-benefit analysis. That starts putting the squeeze on them." And Secretary of State Hillary Clinton, in recent testimony on Capitol Hill, voiced strong support for imposing crippling sanctions on Iran if engagement fails to quickly bear fruit. "In the event that our offers are either rejected or the process is inconclusive or unsuccessful, [the United States is] laying the groundwork for the kind of very tough ... crippling sanctions that might be necessary," Clinton said April 22 in testimony before the House Foreign Affairs Committee.

Q: What companies would be affected by this legislation?

A: According to numerous shipping industry sources, shipments of refined petroleum to Iran are dominated by two trading firms—Vitol and Trafigura. They are both registered in Switzerland. In 2008, the companies together accounted for two-thirds of all refined petroleum shipments to Iran. Today, that figure has moved closer to 80 percent. The remaining shipments come from a handful of companies, such as India's Reliance and Shell International Trading Middle East (SITME). BP, France's Total and Swiss trader Glencore have also periodically delivered gasoline to Iran.

Iran also has undertaken a massive campaign to upgrade its domestic refining capacity to eliminate the vulnerability it faces from sanctions targeting refined petroleum imports, a campaign that will take years to complete. Companies involved in expanding Iran's domestic refinery capacity, and subject to sanction under this legislation, include, Universal Oil Products (UK subsidiary of American

corporation Honeywell), Axens and Technip (France), Sinopec Engineering Inc. (China), Hyundai Engineering Co. (South Korea) and Aker Kvaerner Powergas (Norway).

Companies providing insurance services to shipments of refined petroleum to Iran include Lloyd's of London (UK), Munich Re (Germany), Steamship Mutual Underwriting Association and the North of England P & I Association.

Q: Does the legislation punish close American allies?

A: The leaders of our major allies, including France, Britain, and Germany, have all recently spoken of the need for much tougher sanctions if engagement does not succeed. On March 17, British Prime Minister Gordon Brown stated, "Iran's current nuclear program is unacceptable. ... Iran therefore faces a clear choice—continue in this way and face further and tougher sanctions..." On February 7, German Chancellor Angela Merkel stated, "...we are also prepared to consider tougher sanctions should there be no progress. It's imperative that we prevent Iran from acquiring nuclear weapons." On June 23, 2008, French President Nicolas Sarkozy stated, "So that things are clear and there is no ambiguity, I want to say that Iran's military nuclear program demands an extremely firm response by the entire international community. ... France is determined to pursue with her partners a policy of increasingly tough sanctions until there is a shift in position."

U.S. diplomacy is aimed at imposing such sanctions with the multilateral cooperation of our allies. The sanctions in the legislation would be imposed only if current diplomatic efforts fail and foreign companies continue to provide refined petroleum to Iran. Iran poses a strategic threat not only to the United States, but to Europe and the entire world as well. With Iran continuing to defy the international community, the Europeans will hopefully continue to step up their own efforts to put economic pressure on Iran. Many European nations have already begun to cut their investments in Iran and limit their trade. Scores of European and international banks, unwilling to risk heavy fines and the possible loss of access to U.S. financial markets, have ceased or limited transactions with Iran. Past U.S. sanctions legislation has been managed by the executive branch to avoid alienating our European allies, and the current legislation provides the president with the flexibility he would require.