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The Iran Refined Petroleum Sanctions Act

As Iran continues to defy international demands to suspend its nuclear program and refuses to hold serious negotiations with the international community, dramatic new sanctions will be needed to press Tehran to suspend its illicit enrichment of uranium. The Iran Refined Petroleum Sanctions Act (H.R. 2194 in the House and incorporated into the Senate's S. 2799, the Comprehensive Iran Sanctions, Accountability and Divestment Act) seeks to increase pressure on Iran by limiting Tehran's ability to import and produce refined petroleum products such as gasoline and diesel fuel. With Iran continuing to advance its nuclear program, it must be presented with a clear and stark choice: suspend your nuclear program or face crippling sanctions.

Q: What is the Iran Refined Petroleum Sanctions Act?

A: The Iran Refined Petroleum Sanctions Act is an effort to reinforce American and international diplomacy by imposing tough sanctions on Iran to persuade the regime to suspend its nuclear program and seriously engage in negotiations with world powers.

IRPSA will increase the pressure on Iranian leaders by restricting their ability to purchase refined petroleum products. Despite being one of the largest producers of crude oil in the world, Iran lacks adequate refining capability to meet its own domestic needs for gasoline, diesel and aviation fuel. Iran is forced to import 25 to 40 percent of its refined petroleum needs.

The bill seeks to curtail those imports through the imposition of sanctions on companies providing refined petroleum to Iran or transporting, insuring, or financing refined petroleum deliveries. The legislation also targets companies helping Iran expand its own domestic refining capacity. The bill includes provisions allowing the president to waive the implementation of sanctions if he determines such a move is vital to the national security interests of the United States.

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 August 21, 2009, British Prime Minister Gordon Brown stated, "If there is no further progress immediately, then I believe the



The bill would restrict Iran's ability to purchase refined petroleum products that are critical for its production of oil and transportation.

world will have to look at stepping up sanctions against Iran as a matter of priority.” On the same day, German Chancellor Angela Merkel said, “If Iran got atomic weapons it would [be] a dangerous situation. That is why sanctions would be justified.” French President Nicolas Sarkozy echoed these sentiments, saying Aug. 26 that he would press for tougher sanctions on Iran if the Islamic Republic refuses to halt its illicit nuclear work. “It is the same leaders in Iran who say that the nuclear program is peaceful and that the elections were honest. Who can believe them?” Sarkozy said.

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 should 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.

Q. Won’t additional sanctions hurt the average Iranian person?

A. The average Iranian is already suffering under the corrupt and repressive clerical regime. Inflation is officially around 20 percent but is actually much higher. Unemployment and underemployment may be as high as 50 percent. Iran’s petroleum and natural gas sector, which accounts for 80 percent of its hard currency earnings, is entirely state-owned and benefits primarily the elite within the clerical regime. While curtailing Iran’s ability to purchase refined petroleum would impact the entire Iranian economy, it would fall most heavily on the regime elites who can afford to own and operate cars. In any event, the goal of enhanced sanctions against Iran is not to inflict long-term economic hardships on the Iranian people, but to quickly jolt the regime into meeting its obligations.

Q. Won’t new sanctions cause the Iranian people to rally around the regime?

A. The current regime in Iran has long blamed its internal problems on outside interference from the West. There is no doubt the regime will continue to do so regardless of whether sanctions are increased or decreased. However, the people of Iran have largely ignored this argument. Attempts to blame the upheaval resulting from the Iranian presidential election on Western interference fell on deaf ears as protests continue. Opposition leaders have blamed Iran’s current isolation and economic difficulties on their own leadership’s ineptitude. The Iranian people, moreover, are well aware of the corruption that exists among the ruling clerics.

In fact, the people of Iran—especially in light of the brutal crackdown—are more likely to oppose the regime, not rally around it, because they know the actions of the regime have led to Iran’s isolation. The goal of the sanctions is not to hurt the Iranian people but to force the regime to decide between providing a better life for its people or continuing with its illicit nuclear weapons pursuit.

Q. Why is it so important for the United States to increase sanctions on Iran now as the regime is in turmoil?

A. Time is of the essence to stop Iran from acquiring a nuclear weapons capability. The world cannot wait for the political situation in Iran to unfold before dealing with the threat of a nuclear-armed Iran. Given the protracted nature of Security Council negotiations—more than 20 months have passed since the Council last sanctioned Iran—and the likelihood new U.N. sanctions alone will not change Iran’s calculus, the United States must move quickly to impose its own sanctions.

Overwhelming American sanctions such as those in the Iran Refined Petroleum Sanctions Act have the potential to change the dynamic within Iran and alter the thought process of Iranian leaders. The urgency of Iran's advanced nuclear program means that the time for incremental action has passed. Deferring efforts to address the threat of a nuclear-armed Iran will only allow Iran to achieve increased capabilities, making a successful resolution of the nuclear issue that much harder.

Nobody knows how long it will take for the political situation in Iran to reach a resolution. The present regime could stay in power for another six months, a year, or indefinitely, allowing it to reach its goal of a nuclear weapons capability. There is no guarantee if a new regime comes to power it will end Iran's nuclear program. A crippling sanctions regime would force Iran's leaders to confront a real choice: continue the nuclear program or face the collapse of Iran's economy and possibly the loss of their own power.

Q. Iran has undertaken a massive campaign to upgrade its domestic refining capacity. Doesn't this render gasoline sanctions obsolete?

A. It is true that Iran has undertaken an intensive campaign to upgrade its domestic refining capacity to eliminate the vulnerability it faces from sanctions targeting refined petroleum imports. However, this campaign, which is several years old, has yet to significantly increase Iran's gasoline production and it is questionable if it ever will. Current refinery projects are years behind schedule and will take several more years to complete. Further, despite rationing gasoline, Iran is expected to see a two to six percent annual increase in gasoline demand for the foreseeable future, making even more new refining capacity necessary.

The Iran Refined Petroleum Sanctions Act specifically targets Iran's domestic refining capabilities by imposing sanctions on any company that helps Iran maintain or expand its refining capacity. Much of the technology needed to upgrade and expand Iran's refineries comes from Western companies that are unlikely to continue their activity in Iran when faced with the potential loss of access to the U.S. market. While China has announced plans to invest in Iran's refinery sector, it is unlikely to greatly affect Iran's gasoline production levels since China has limited technical and operational capability to carry out such a major program.

The bill also targets any bank or financial institution providing credit or financing for any refinery project or the export of material for such refineries, thus reducing the likelihood of significant refining expansion.

Finally, even if Iran succeeds in expanding its domestic refining capacity to meet its internal needs, it will take years, while the sanctions would have an immediate impact. The mere talk of sanctions has already forced Iran to spend billions of dollars attempting to expand domestic production.

Q. Won't Russia and China supply Iran with refined petroleum if the U.S imposes sanctions?

A. While the support of China and Russia for increased sanctions is preferable, it is not needed to successfully limit Iran's ability to import refined petroleum. No Security Council resolution is needed to carry out sanctions, as the initiative seeks to leverage private market forces to force companies to choose between doing business with the United States or with Iran. Neither Russia nor China has the spare capacity of refined petroleum to completely make up for the loss of other international suppliers. Further, those Chinese and Russian companies that would supply Iran also have significant U.S. exposure opening them to significant losses if sanctioned.

If Tehran were able to acquire some refined petroleum abroad, it is likely to be at substantially increased cost as Iran will be forced to carry out much of the importation itself using its own ships and providing its own insurance. If foreign companies are willing to help Iran, they will likely charge increased rates to sell, ship and insure the petroleum to compensate for the increased risk they face.

And the regime will be forced to further reduce already rationed gasoline supplies, risking the ire of its citizens.

Q. Does it make sense to sanction gasoline imports since Iran spends so much money subsidizing the sale of imported gasoline?

A. Any savings Iran achieves by not having to import refined petroleum will be lost by the resulting drop in the amount of oil available for export. Iran's subsidization of gasoline prices is a huge burden on the regime that only increases as it produces more domestically. The revenue lost by Iran due to the sale of subsidized gasoline during 2007-2008 was nearly \$32 billion, or 11.2 percent of Gross Domestic Product (GDP). If Iran produced 100 percent of its gasoline domestically and sold that gasoline at subsidized prices, it would cost the regime more than 18 percent of its GDP—a higher percentage of GDP than the United States spends on health care in a year.

Further, if Iran succeeds in expanding its domestic refining capacity to meet its internal needs, it will have done so only after expending a massive amount of capital. The mere talk of sanctions has already forced Iran to spend billions of dollars in an attempt to expand domestic production with little correlating decrease in refined petroleum imports.

Q: Couldn't Iran just end gasoline subsidies and blame the decision on the United States?

A. The Iranian public views access to cheap gasoline as its natural right given Iran's vast energy resources. If confronted with the loss of gasoline imports, the Iranian regime may attempt to further ration gasoline or reduce demand by raising the price of gasoline, or both. However, any such moves would likely be met with broad public protests and riots, as was the case in 2007 when the Iranian regime last tried to impose gasoline rationing. In that instance, dozens of gas stations were set on fire and the regime was forced to increase the amount of gasoline provided at subsidized rates. An unpopular regime already facing mass protests over the disputed presidential election would be unlikely to take such a dramatic move to further stoke dissent.

Q: What is the administration's view on the legislation?

A. While the administration has not commented specifically on the Iran Refined Petroleum Sanctions Act, it has highlighted the need for additional pressures on Iran. In response to Iran's rejection of an international proposal to send a portion of its LEU abroad for processing and Iran's continuing refusal to suspend its nuclear program, President Obama said there would need to be consequences. "We have begun discussions with our international partners about the importance of having consequences," the president said.

During the 2008 presidential campaign, then-Senator Barack Obama specifically highlighted the potential of sanctions on Iran's refined petroleum imports, saying, "If we can prevent them from importing the gasoline that they need ... that starts changing their cost-benefit analysis. That starts putting the squeeze on them."