ISSUE BRIEF

AIPAC
THE AMERICAN ISRAEL PUBLIC AFFAIRS COMMITTEE
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Congressional Sanctions Effort Squeezing Iran

Bills passed by the House and Senate designed to limit refined petroleum supplies to Iran are already having a significant impact—even before final approval by Congress and the president. Iran is experiencing increasing difficulties in finding companies willing to provide refined petroleum, banks to finance the deliveries and insurance companies to cover the risk of these transactions.

Iran is paying as much as a 45 percent premium on the refined petroleum it is now importing, according to sources within the oil industry. Iran is facing increasing economic pressure as it reexamines its subsidy and rationing policies—pressure that would dramatically increase if Congress were to approve and the president implement the legislation awaiting conference committee deliberations. Increasing the pressure and isolation of the regime in Tehran offers the best hope for Iran to turn away from its quest of a nuclear weapons capability.

Fuel Traders Ending Business in Iran

With most of Iran's traditional gasoline suppliers having exited the Iranian market, Tehran has been forced to seek out smaller and less reliable suppliers to meet its demands. All of the companies pulling out of Iran have major U.S. operations or connections to the U.S. financial system that would be at risk if they continued their Iranian operations. France's Total remains the one major international energy company still counted as one of Iran's main suppliers.

LUKOIL is one of the latest firms to stop sales of gasoline to Iran due to pending sanctions bills.

According to press or company reports, companies pulling out of the Iranian market include:

- **Glencore, Switzerland** – Glencore International AG halted gasoline shipments to Iran in the last quarter of 2009. The company was previously one of Iran's top suppliers of gasoline. Glencore is in the process of an Initial Public Offering (IPO) in the United States and ended its Iran business due to the risk it posed to the IPO.

- **LUKOIL, Russia** – LUKOIL ceased gasoline shipments to Iran in the spring of 2010. The company has significant business in the United States that would have been at risk after passage of the legislation, including some 2,000 retail gasoline stations.

- **Reliance, India** – Reliance, until recently, supplied a quarter of Iran's gasoline imports. The company is greatly expanding its U.S. presence and shipments of gasoline to the United States, and benefited from U.S. Export-Import Bank guarantees to massively upgrade its Jamnar refinery, the largest in the world. The company has announced it is ending gasoline sales to Iran and is reportedly cutting its crude purchases.

- **BP, United Kingdom** – In the second half of 2009, BP ended deliveries of gasoline to Iran after previously halting new investments in Iran several years ago. In addition to significant oil and natural gas exploration and production activity in the United States, some 11,500 retail sites in the U.S. operate under a BP brand.

- **IPG, Kuwait** – The Kuwaiti fuels trader, which had provided up to 25 percent of Iran's gasoline imports in 2009, ceased supplies at the end of January 2010 because of the increased threat of sanctions, sources close to the company told *International Oil Daily*. IPG's decision was also affected by the risk of losing its close relationship with Morgan Stanley, the U.S. bank that finances a significant portion of the firm's non-Iranian business.

- **Royal Dutch Shell, Netherlands** – According to March 2010 press reports, Royal Dutch Shell has stopped gasoline sales to Iran. While not a major Iranian supplier, Shell had consistently been providing one to two gasoline shipments to Iran per month.

- **Vitol, Switzerland** – At the start of 2010, Vitol, the world's largest international oil trader, reportedly decided to end gasoline shipments to Iran. Vitol was previously Iran's largest single source for refined petroleum products. This report has since been disputed.

- **Trafigura, Switzerland** – The Swiss-based firm Trafigura halted gasoline shipments to Iran at the end of 2009, citing the high political and financial risks. This report has also been subsequently disputed.

Increased Gasoline Cost for Iran

With most of its traditional suppliers no longer providing refined petroleum, and with the prospect for increased sanctions on its refined petroleum imports looming, Iran has faced increased cost in sourcing its gasoline imports. In April 2010, Iran paid a premium of between 12 and 45 percent for gasoline deliveries compared to comparable purchases made by Saudi Aramco, according to information obtained from fuel traders by energy information provider *Platts*. The increased cost is due to multiple factors, including fewer traders maintaining business links to Iran, almost no international banks issuing letters of credit for the transactions, increased shipping costs due to the heightened risk and increased insurance premiums.

Maritime Insurance Costs Increased

London's marine insurance market, via the Joint War Committee, on March 11 added Iran to its list of areas deemed high risk due to the potential for increased U.S.-backed sanctions. The high risk designation will add a risk premium to all insurance contracts for vessels transiting Iran. According to Neil Roberts, secretary of the Lloyd's Market Association (LMA), which represents the interests of all underwriting businesses in the Lloyd's market, ships transiting the area will have to notify underwriters of voyages up to 12 nautical miles off Iran's coast. "The reason it's been added is that underwriters are mindful of possible U.S. sanctions against the country and really need to have a good idea of their exposures and the trade they are covering," Roberts said.

Banks Severing Ties with Iran and Companies Selling Gasoline to Iran

Primarily as a result of the pending legislation and U.S. financial sanctions, almost all international banks have stopped issuing letters of credit for refined petroleum deliveries to Iran. A major European bank has gone as far as threatening to sever ties with any trading clients that are caught diverting gasoline cargoes to Iran, according to a February report from *International Oil Daily*. Credit Suisse reportedly sent a letter to clients asking them to confirm they are not involved in any business with Iran and saying the company would have to cease business with entities that maintain an Iranian trade portfolio. Banks are also now demanding certificates of discharge to ensure refined petroleum cargos are not diverted from their original destinations to ports in Iran.

Insurance Companies Ending Business in Iran

Major international insurance and reinsurance companies have ended their Iranian business given the potential risks of losing access to the U.S. market compared to the minuscule business they conduct in Iran. Allianz, Europe's largest primary insurer by gross premiums, announced in February 2010 it was suspending business in Iran. Munich Re, the German reinsurance company, also announced in February 2010 it would not renew existing business or write any new business with insurance companies in Iran. The company already pulled out of reinsurance for marine shipping of fuel to and from Iran in October 2009. Munich Re is one of the world's top two re-insurers.

Iran's refinery expansion plans are years behind schedule due to U.S. sanctions.

Refinery Construction Years Behind Schedule

In order to blunt the impact of U.S. sanctions, Iran has undertaken an intensive campaign to upgrade its domestic refining capacity. However, as a result of the pending legislation—which targets companies assisting Iran in upgrading its refineries—and other U.S. and international pressures, this Iranian effort has thus far failed to show meaningful results. Iran has encountered difficulties in sourcing key components and technologies needed to increase production and efficiency, especially those technologies needed to refine its heavy oil production. Iran's refining capacity in 2008 increased only .5 percent— not enough to meet demand growth or reduce imports. FACTS Global Energy forecasts approximately two percent demand growth in 2010, increasing to three percent through 2015. With new refinery construction estimated to cost $27 billion, Iran has also faced great difficulty in securing the necessary financing to carry out its plans.

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