

MEMMO

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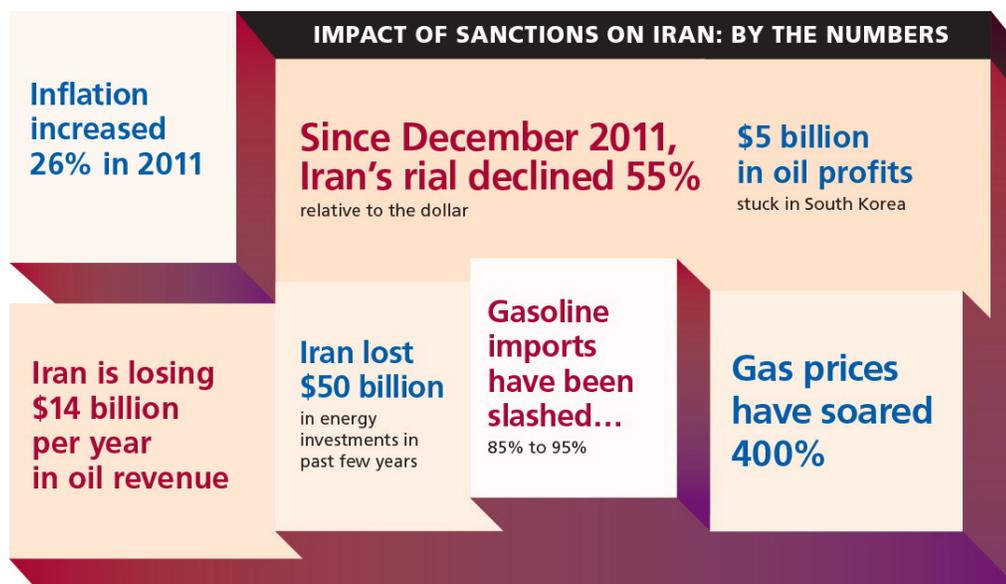
Sanctions Having Unprecedented Impact on Iran

Recently adopted U.S. and international sanctions, designed to persuade Tehran to end its pursuit of nuclear weapons, are having an unprecedented impact on the Iranian economy. The value of Iran's currency has dropped by half, while Iran struggles to conduct basic international trade. China, Japan, and South Korea appear to be reducing their purchases of Iranian crude, while foreign commodities suppliers are hesitant to ship to a nation having difficulty paying its bills. Iran can resume normal trade and investment ties with the world by coming into compliance with its nonproliferation obligations and terminating its nuclear weapons program.

Sanctions Blocking Iran's Access to Financial System

Although Iran's radical regime continues to mismanage its economy, many current difficulties can be directly linked to international sanctions targeting Iran's financial sector. U.S. sanctions are forcing international banks to abandon Iran in order not to lose access to the U.S. financial system. Without the ability to receive payments for their goods, many companies have stopped exports to Iran. Those exports that continue to flow are often paid for in barter for Iranian oil or using local currencies. Iran's access to foreign exchange has been diminished and oil profits are stuck in accounts at South Korean, Japanese and other foreign banks.

U.S. and EU sanctions targeting Tidewater Middle East Company, the operator of Iran's largest ports and an affiliate of Iran's Islamic Revolutionary Guard Corps (IRGC), have also adversely affected trade. International ship owners unable to obtain insurance coverage for cargos to Iran have ceased these operations. Increased cooperation from the UAE has also hampered Iran's economy by limiting one of the major routes Tehran had used to bypass international restrictions.



Sanctions are having a broad impact on the Iranian economy, causing slower growth, higher unemployment and rampant inflation.

- Tehran's rial shed 55 percent of its value relative to the dollar—a development that Iran's Central Bank governor attributed to U.S. sanctions.
- Tehran has arrested hundreds of Iranians for exchanging rials for more stable currency.
- Official statistics show Iran's rate of unemployment has risen to 16 percent, with most analysts believing the number is double that and as high as 50 percent among youth.
- Many analysts now believe Iran in 2012 will experience negative GDP growth for the first time in 20 years. Some predictions have Iranian GDP declining by 10 percent.
- The annual rate of inflation officially stands at 24 percent, but prices for many basic goods have skyrocketed even higher.
- Wheat and imported steel have doubled in cost. The price of meat (recently estimated at \$14/lb) is unaffordable for the average Iranian family earning less than \$350 a month.

The Iranian energy sector—including its ability to export oil—is under extreme pressure.

- Every major western energy firm has ceased investing in Iran's energy sector. Without western technology, Iran cannot develop its oil and natural gas resources.
- Since passage of U.S. sanctions targeting Iran's refined petroleum imports, the number of companies selling oil to Iran has dropped from 16 to 4, according to a recent GAO report.
- The International Energy Agency recently estimated up to 1 million barrels of Iranian oil exports may be replaced by alternative supplies during the next five months.
- In January, China reduced Iranian imports by 285,000 barrels a day over a pricing dispute—nixing about half of its purchases from Tehran.
- In 2011, Japan's crude imports from Iran fell 11.7 percent due to decreased demand and an effort to diversify supply.
- South Korea is importing record levels of crude from West Africa, especially Angolan and Nigerian grades, to begin replacing Iranian imports.
- However, there are initial indications that India is importing higher quantities of oil from Iran, helping to offset other country's reductions.

Trade has been interrupted by Iran's inability to obtain financial services, insurance coverage and shipping services.

- The central banks of the United Arab Emirates and Qatar recently told local lenders to cease financing trade with Iran. These nations had provided a key source of credit and payment settlement for Iran in the aftermath of U.N. and Western sanctions.
- Steel exports to Iran have collapsed because Iran cannot access dollars or euros to pay for the material. Because Iran is one of the largest importers of billet, a semi-finished steel bar, global prices have dropped by nearly 10 percent just in February.
- China recently threatened to stop purchases of iron-ore from Iran, which is worth more than \$2 billion a year.
- Shipments of Ukrainian grain and Indian rice have also been held up over payment and shipment issues. Iranian buyers defaulted on some \$144 million in payments for Indian rice.