



## **Impactful Sanctions**

As Iran continues its efforts to develop nuclear weapons, and sanctions continue to target companies who do business with Iran, major oil companies and international banks have ended or reduced their ties to the Islamic Republic.

This isolation makes life more difficult for the regime in Tehran. Although Iran is a major oil exporter, it lacks a sufficient domestic refining capability and relies on outside companies in order to meet its population's demand for gasoline and other refined petroleum products.

Now, due to U.S. sanctions, many of these outside companies have stopped doing business with Tehran. The Indian company Reliance no longer sells gasoline to Iran because it is unwilling to risk its business interests in the U.S. BP stopped investing in Iran's energy sector several years ago; last year it stopped selling Iran gasoline, too. Royal Dutch Shell has done the same.

The Independent Petroleum Group (IPG) of Kuwait once provided Iran up to 25 percent of its gasoline imports. That changed last January partly due to the risk of losing its close relationship with Morgan Stanley. Finally, Russia's largest non-state oil company, Lukoil, announced in April that it would join the growing list of companies that refuse to sell gasoline to Iran.

With so many businesses refusing to sell Iran gasoline—and with Iran's domestic demand for refined petroleum rising—the effect of U.S. sanctions on Tehran is as clear as it is predictable: higher prices for the regime. For example, in April the National Iranian Oil Company paid as much as 45 percent more for gasoline deliveries than did Saudi Aramco.

Moreover, due to U.S. pressure, almost all international banks have stopped issuing letters of credit for refined petroleum deliveries to Iran. This reality has forced Iran to pay cash in advance for its gasoline purchases, adding additional costs to the transactions.

A major European bank has even 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, which was fined for its ties with Iran, reportedly sent a letter to its clients asking them to confirm that they are not involved in any business with Iran. Banks are also now demanding certificates of discharge in order to ensure that refined petroleum cargo is not diverted from its original destination to ports in Iran.

As oil companies and international banks reduce their ties with Iran, Tehran is feeling the stress. Gasoline prices in Iran are rising, and the government is under tremendous pressure to reduce its dependence on gasoline imports. The final passage and implementation of U.S. sanctions legislation targeting refined petroleum exports to Iran will only hasten these developments. Hopefully, such sanctions will also convince Tehran to abandon its pursuit of nuclear weapons.