# The Bush administration's economic war on Iran

Peter Symonds
12 February 2007

Amid the continuing US military build up in the Persian Gulf, the Bush administration is already conducting an economic war against Iran aimed at bringing the country to its knees. The most overt element of this campaign is the attempt by the Treasury Department and other US agencies to force governments, major banks, oil corporations and other businesses in Europe and Asia to cut off investment, loans and financial arrangements with Tehran.

US demands go far beyond the limited sanctions imposed by the UN Security Council in December over Iran's nuclear programs. They hit directly at the economic ties with Iran established by Europe and Asia over the past decade or so. The Bush administration's campaign makes clear that its chief objective in the confrontation with Tehran is to reassert US dominance over the energy-rich country at the expense of its rivals. American claims that Iran is making nuclear weapons and "meddling" in US-occupied Iraq are simply convenient pretexts.

Washington has already indicated it will push for tougher sanctions when Iran is again brought before the UN Security Council on February 21. Meanwhile, American officials have exploited the looming threat of war as well as existing US legislation, which provides for penalties against US or foreign companies investing in Iranian energy reserves, to strong-arm European banks and firms into cutting ties.

In late January, the US made a concentrated effort to block Iranian attempts to attract desperately needed capital to upgrade and extend its oil and gas infrastructure. One European executive told the *Washington Post* that a US State Department official had bluntly warned that Iran was "hot and going to get hotter". Another executive said: "The [US] administration is putting the full-court press on foreign companies and is going all out to impress upon them that it would be a mistake to do anything with [Iran]."

Not surprisingly, Washington's bullying and threats have provoked resentment in government and business circles in Europe. A European oil consultant told Associated Press: "All the oil companies will tell you that they are having regular visits from the US embassies in their countries... Nobody in Europe is going to give up the opportunity of doing business with Iran just for the sake of pleasing the Americans."

The targetting of oil companies was aimed at undermining a meeting in early February in Vienna organised by National Iranian Oil Co (NIOC) to offer new oil blocks to foreign investors. Despite American threats, more than 200 representatives from over 50 international oil companies attended. Just a week earlier, the Anglo-Dutch energy giant Shell ignored US pressure and signed a multi-billion deal with Iran to develop a Liquefied Natural Gas (LNG) project based on the South Pars field.

The Bush administration has no intention of letting up. Speaking on February 7 in Munich, the US ambassador to the International Atomic Energy Agency (IAEA), Gregory Shulte, declared: "Let me be frank: From the US perspective, the Security Council took too long and produced too little. European countries can do more—and should do more."

Shulte specifically targetted the provision of government loans to facilitate trade, asking: "Why, for example, are European countries using export credits to subsidise exports to Iran? Why, for example, are European governments not taking more measures to discourage investment and financial transactions?" According to the US, European governments provided Iran with $18 billion in loan guarantees in 2005. These included Italy $6.2 billion; Germany $5.4 billion; France $1.4 billion; and Spain and Austria $1 billion each. The US is also pressuring major international banks to cut off ties with Iran.

The provision of government-sponsored trade credit is a widespread international practice. It is neither illegal nor does it contravene the provisions of the UN sanctions on Iran. Washington's determination to choke off economic relations with Tehran is aimed as much at its rivals as against Iran. Over the past decade, the European Union (EU) has become Iran's largest trading partner, selling machinery, industrial equipment and other commodities in return for energy supplies. The US, on the other hand, has almost no trade with Iran, having maintained a virtual economic blockade on the country since the ousting of close American ally, Shah Reza Pahlavi, in 1979.

European governments and corporations are not the only targets. China faces the prospect of US retaliation over its trade deals with Iran. Iran and China's biggest offshore oil producer, CNOOC, announced in December a preliminary deal worth an estimated $16 billion to develop Iran's offshore North Pars gas field. The agreement is already being investigated by a US congressional committee to determine whether economic penalties can be brought against CNOOC under the recently renewed Iran Sanctions Act.

India has been threatened with the same Act, which provides for US sanctions against any foreign company that invests more than $40 million in Iran's energy sector. The US ambassador to India, David Mulford, pointedly announced that he had informed India's External Affairs Minister Pranab Mukherjee of the legislation prior to the minister's trip to Iran last week. India is involved in a major $7 billion gas pipeline project from Iran through Pakistan, a project that the US has opposed.

The Bush administration has been pressuring Russia to halt work on Iran's nuclear power plant at Bushehr, which is virtually complete. After the $1 billion contract is finished, Russia has the prospect of further large construction deals as Tehran plans to build additional power reactors. Washington has also sharply criticised Russia's sale of arms to Iran, including its recent purchase of advanced anti-aircraft missile systems.

A comment last month in the London-based *Times* entitled, "New US strategy on Iran emerges from Davos," characterised the Bush administration's economic offensive as "an economic pincer movement consisting of financial diplomacy on one side and energy policy on the other".

The first half of the pincer is aimed at cutting Iran off from international finance and trade. Iran is the world's fourth largest producer of oil, but desperately requires investment to upgrade and expand its infrastructure. According to the article, the second half involves deliberately depressing world oil prices in order to undermine Iran's income from oil exports. The Bush administration's chief ally in the attempt to lower oil prices is Saudi Arabia, which regards Iran as its main regional rival and, as the world's largest producer, is able to expand production to rein in prices.

The *Times* article explained: "Iran's economy depends entirely on oil sales, which account for 90 percent of exports and a roughly equal share of the government's budget. Since last July, a barrel of oil has fallen from $78 to just over $50, reducing the government's revenues by one third. If the oil price fell into the $35 to $40 range, Iran would shift into deficit, and with access to foreign borrowing cut off by UN sanctions, the government's capacity to continue financing foreign proxies would quickly run out. Iran has reacted to this threat by calling on OPEC to stabilise prices but, in practice, only one country has the clout to do this: Saudi Arabia.

"Earlier this month, in a highly significant statement, Ali al-Naimi, the Saudi Oil Minister, publicly opposed Iranian calls for production cuts to halt the decline in prices. Mr Naimi's pronouncement was cast as a technical matter unconnected with politics, but it seemed to confirm private warnings by King Abdullah that his country would try everything to thwart Iran's hegemony in Iraq and throughout the region, whether by military intervention or more subtle economic means."

Iran's production costs at $15-18 a barrel are far higher than Saudi Arabia's $2-3 a barrel, so lower world prices would hit Tehran far more than Riyadh. Saudi Arabia has, of course, denied any political motive behind its refusal to cut production and lift oil prices. The *Times*, however, is not alone in speculating about a deliberate Saudi-US strategy to undermine the Iranian economy.

Commenting on falling oil prices, the *New York Times* noted last month that other motives, than purely commercial ones, "seem to be at work, too, including the Saudis' desire to restrain Iran's ambitions in the region. How much influence the United States has exerted is an open question. Vice President Dick Cheney met with King Abdullah of Saudi Arabia in Riyadh in November, but his office would not say if oil was discussed. The White House has been supportive of the Saudi energy policy, and President Bush and his father are close with Prince Bandar bin Sultan, the Saudi national security minister and former ambassador to Washington."

A US-based Saudi security adviser Nawaf Obaid, who, like Prince Bandar bin Sultan, advocates a more aggressive Saudi policy to block Iranian influence, openly floated the idea of using oil prices as an economic weapon in an article in the *Washington Post* in November. "If Saudi Arabia boosted production and cut the price of oil in half, the kingdom could still finance its current spending. But it would be devastating to Iran, which is facing economic difficulties even with today's high prices," he explained.

The degree to which such a plan is now in operation is unclear. What is undeniable is that the Bush administration is waging an economic offensive against Iran in order to undermine its economy and to weaken the government as the US prepares for military aggression. The broader objectives of the economic and military strategy are identical: to establish US dominance over Iran and its energy reserves as part of its ambition for American hegemony throughout the Middle East and Central Asia.