Harsh new US penalties against Iran

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US President Barack Obama signed into law last Thursday Congressional legislation against Iran that has the potential to heighten tensions, not only with Tehran, but America's European and Asia rivals.

The legislation broadly targets foreign banks and corporations doing business in Iran and sets out unilateral US penalties against those that do not fall into line. Companies could be denied access to the US Export-Import Bank, restricting their ability to sell into the US market, or denied US government contracts.

The Comprehensive Iran Sanctions, Accountability, and Divestment Act requires the US Treasury Department to bar access to the American financial system to any foreign bank conducting transactions with Iranian entities blacklisted by the UN or the US government. The list includes some major Iranian banks, the Iranian energy sector, and businesses associated with the Islamic Revolutionary Guard Corps (IRGC).

The legislation provocatively targets foreign companies selling refined petroleum products, such as gasoline and diesel, to Iran, including producers, insurers and those involved in transportation. While Iran has huge reserves of oil, its energy infrastructure and refining capacity are badly rundown due to a lack of investment, forcing the importation of gasoline.

Washington has accused Tehran of seeking to build nuclear weapons. Last month the US and its European allies pushed a fourth resolution through the UN Security Council, imposing new penalties on Tehran over its refusal to shut down its uranium enrichment facilities and halt the construction of a heavy water research reactor. Following the UN resolution, the European Union (EU) foreshadowed further tough sanctions against Iran, including a ban on investment in its energy sector.

The Iranian regime has repeatedly denied it has any plans to build nuclear weapons, and denounced the UN and US sanctions as illegal. Under the Nuclear Non-Proliferation Treaty (NPT), which Iran has signed, countries have the right to develop any aspect of the nuclear fuel cycle, including uranium enrichment and plutonium reprocessing, for peaceful purposes. Iranian nuclear facilities, including the Natanz uranium enrichment plant, are subject to regular International Atomic Energy Agency (IAEA) inspections, which include a stock take of enriched uranium to ensure it is not used for military purposes.

The US legislation goes far further than the proposed EU sanctions and the UN resolutions, to which Russia and China only reluctantly agreed under pressure from Washington. Any significant constriction of the sale of refined petroleum products to Iran could impact heavily on its economy. Although Tehran has been building up its strategic reserves and is cutting back on imports, Iran still buys an estimated 25-30 percent of its gasoline needs on the international market.

The ramifications of the laws are even wider. Democrat congressman Ron Klein told the *Wall Street Journal*: "Foreign companies are going to have to make a choice: Do they want to do business with us or with the Iranians?" By threatening to penalise foreign banks and companies for activities that are not banned under UN resolutions, the law will inevitably fuel international resentment and intensify frictions.

Last week the French oil company Total ended sales of gasoline to Iran and Spain's Repsol pulled out of a development contract with Royal Dutch Shell for

Iran’s South Pars gas field. Total CEO Christophe de Margerie told an economic forum: “We do not think an embargo on the delivery of petrol products is a good way to settle differences of a political nature.” He complained that “too many things are politicised these days”.

In the US, the National Foreign Trade Council and the US Engage alliance of companies and associations also raised concerns, particularly over possible penalties against US parent companies for violations by their foreign subsidiaries. In a press statement, council president Bill Reinsch warned: “We are deeply concerned about the timing of this legislation and its unintended consequences for legitimate global commerce.”

Total is just the latest company to pull out of gasoline sales to Iran. Over the past six months, Russia’s LUKOIL, India’s Reliance Industries, Malaysia’s Petronas, Royal Dutch Shell and the Swiss firm Glencore, each announced a halt to sales. At the same time, several major Chinese corporations, including the state-owned China National Petroleum Corp and China Petroleum & Chemical Corp, reportedly increased their sales to Iran earlier this year.

Under the legislation, the US administration can waive penalties on countries, such as China, that backed the UN resolution against Iran. If Obama took action against Chinese oil companies, tensions would escalate between Washington and Beijing, which only agreed to support the latest UN sanctions if Iran’s energy sector were excluded. China imports roughly 15 percent of its crude oil from Iran and has signed several major agreements to develop energy projects there.

The new US sanctions point to the motivations underlying Washington’s continuing threats and provocations against Iran. American banks and corporations will be largely unaffected, as Washington has effectively blockaded Iran economically for more than three decades following the overthrow the Shah in 1979. But the penalties will impact on US rivals, including close US allies such as Germany and Japan, that have substantial economic interests in Iran.

The *Wall Street Journal* pointed out last Thursday “Among those that could face legal challenges and fines are Japan’s Big Three Banks—Mitsubishi UFJ Financial Group Inc., Sumitomo Mitsui Financial Group and Mizuho Financial Group Inc—as well as European firms such as Commerzbank Bank AB and Deutsche Bank AG, all of whom have businesses inside Iran.” Japan’s oil and gas producer Inpex Corp also has significant interests, including a 10 percent stake in the Azadegan oil field in southwestern Iran.

Iran not only has huge oil and gas reserves but is strategically located between the key regions of the Middle East and Central Asia. The nuclear issue is simply a convenient pretext for Washington to apply pressure in a bid to fashion a regime in Tehran that is more conducive to US ambitions for regional domination. The Obama administration’s overt support for the oppositional Green movement inside Iran, following last year’s presidential poll, had the same aim.

There is a dangerous logic to US attempts to choke off gasoline supplies to Iran. As several articles in the US press have pointed out, even if major foreign corporations pull out of the gasoline trade with Iran, Tehran will still have access to refined petroleum products—at a price—through various black markets operating in the Persian Gulf. If financial penalties fail to stop gasoline supplies and bring the Iranian economy to its knees, a clamor in the US for a military blockade is certain to intensify.

Like his predecessor Bush, President Obama has repeatedly refused to rule out military action against Iran, including air strikes against its nuclear facilities. Any attempt to enforce an economic blockade of Iran through military force—regarded internationally as an act of war—would create an explosive situation in the Persian Gulf.