

## Tougher US Sanctions against Iran: Global Reactions and Implications

*M. Mahtab Alam Rizvi*

*M. Mahtab Alam Rizvi is Associate Fellow at the Institute for Defence Studies and Analyses, New Delhi*

February 28, 2012

### Summary

US President Barak Obama recently signed a tougher sanctions law against Iran in a continuing bid to coerce Tehran into abandoning its nuclear programme. The new sanctions will target Iran's crucial oil sector and also the financial institutions of any country doing business with Iran's Central Bank. This has made trading with Iran difficult for countries around the world, especially those importing Iranian oil. They are now looking for alternate oil supplies, or negotiating with the US for a discount, or simply rejecting the sanctions. This Backgrounder discusses the reactions of the emerging powers to the new sanctions and their implications.

## Introduction

On the last day of 2011, US President Barack Obama decided to impose tougher sanctions against Iran as part of continuing efforts to dissuade Iran from carrying its nuclear programme forward. The new sanctions against Iran would mean a drop in oil supply and, consequently, already high oil prices rising further. Excluding Iranian oil from the world market would lead to a loss of about four million barrels per day. If the oil embargo is implemented completely, then the major emerging Asian powers – China, India, Japan, South Korea – and even the Western countries, would not be able to purchase Iranian oil. It will thus have global ramifications, in terms of affecting the economic growth of countries highly dependent on the free flow of energy supplies at a moderate price. The Iranian energy sector currently constitutes 20 per cent of the oil imported by the European Union (27 countries), 100 per cent by Sri Lanka, 51 per cent by Turkey, 25 per cent by South Africa, 14 per cent by Greece, 13 per cent by Italy and Spain, 11 per cent by India and China, and 10 per cent by Japan and South Korea.<sup>1</sup>

The International Atomic Energy Agency (IAEA) has never declared Iran's nuclear programme as being intended for military purposes. In fact, it has stated on a number of occasions that there is no evidence that any declared nuclear material has been diverted for military activities till November 16, 2011. Nevertheless, it has accused Iran of breaching its obligations under the nuclear Non-Proliferation Treaty (NPT). According to the IAEA, Iran, since 2008, has not cooperated in terms of providing detailed information pertaining to facilities for enrichment of uranium, including the one coming up in Fordo as declared by Tehran in January 2012. As a result, the Agency's knowledge about Iran's enrichment activities continues to diminish.

## Brief History of the US Sanctions

The first US unilateral sanctions against Iran commenced after the November 1979 occupation of the US Embassy in Tehran. President Jimmy Carter responded immediately by issuing Proclamation 4702, which imposed a ban on the import of Iranian oil. After two weeks, Carter issued another Executive Order (12170) and seized all property (assets) owned by the Iranian Government within the US jurisdiction. Further, in April 1980, he also issued Executive Order 12211, imposing a ban on all imports from Iran and barring US citizens from traveling to Iran or engaging in financial transactions there. But after the release of the US hostages, Carter withdrew all previous executive orders except Executive Order 12170 pertaining to the seizure of the assets of the Iranian Government. At the same time, the US also decided to avoid intervening in Iran's internal affairs. But this

---

<sup>1</sup> "India to Continue Oil Imports from Iran Despite West's Sanctions", *Fars News*, January 30, 2012, available at <http://english.farsnews.com/newstext.php?nn=9010172961>, accessed on January 31, 2012.

policy changed after the 1983 bombing of the US embassy and Marine barracks in Lebanon, when the Ronald Reagan Administration included Iran in a Sponsor of International Terrorism list in January 1984. This measure isolated Iran and made it ineligible for various forms of US foreign assistance.

Driven by the suspicion after the first Persian Gulf War that Iran also could be engaged in developing weapons of mass destruction, in October 1992, the US enacted the Iran-Iraq Arms Non-Proliferation Act, incorporating provisions on dual-use items with potential military purposes. The Act called for sanctioning any person or entity assisting the two countries in developing or acquiring chemical, biological and nuclear weapons. During the subsequent Clinton presidency, US unilateral sanctions against Iran were extended significantly. The Senate and House of Representatives passed the Iran and Libya Sanctions Act (ILSA) of 1996 to extend US sanctions legislation to cover domestic as well as foreign companies in order to reduce Iran's ability to export oil and gas and thus restrict the funds available to it for developing WMDs and supporting international terrorism. Due to ILSA, the investments of US and foreign companies in Iran decreased significantly, especially in the petroleum sector, from \$40 million to \$20 million in the very first year.<sup>2</sup> However, ILSA faced strong criticism and opposition, creating challenges when a number of European companies signed large contracts with Iran worth hundreds of millions of dollars after it came into effect. To avoid a confrontation at the World Trade Organisation (WTO), the Clinton Administration abstained from sanctioning European companies investing in Iran in return for enlarged cooperation from the EU on non-proliferation and counter-terrorism. The ILSA was extended in 2001, and again in 2006 although in the latter year Libya, which had abandoned terrorism and its WMD programmes, was removed from the sanctions list and the Act was renamed the Iran Sanctions Act.

President George W. Bush also extended sanctions against Iran and issued Executive Order 13382 in 2005, which proposed the seizure of the assets of proliferators of WMD and their supporters. The US Government imposed sanctions on the Iranian Banks – *Melli*, *Mellat*, and *Saderat* – and listed the members of the Islamic Revolutionary Guards Corps (IRGC) as proliferators of WMDs in October 2007. Additionally, the US implemented new sanctions on affiliates of the IRGC for allegedly supervising the nuclear weapons programme in February 2010. It must be noted here that previous US sanctions placed restrictions on Iran's oil and gas sectors, but did not impact upon Iran's oil production. They were only imposed on oil and gas firms that were linked to or did business with the Iranian atomic or missiles programme. This time, however, the sanctions are targeting all sectors of the Iranian economy, including the Central Bank of the Islamic Republic.

Obama signed the new sanctions law after the IAEA issued a report on the Iranian nuclear programme on November 17, 2011, accusing Tehran of seeking to weaponise its nuclear

---

<sup>2</sup> See U.S. Energy Information Administration, Iran, Oil, January 20, 2010, available at [www.eia.doe.gov](http://www.eia.doe.gov), accessed on January 21, 2012.

technology. This is significant as this is the first time that the IAEA has accused Iran of developing nuclear technology for military purposes. However, Iran rejected the charge and accused the IAEA of a pro-Western bias.

The new sanctions will not only target Iran's crucial oil sector but also the financial institutions of any country doing business with Iran's Central Bank; that is, financial institutions that do business with the Iranian Central Bank will be barred from operations in the US. This has made it difficult for other countries to trade with Iran, especially those dependent on Iranian oil. They are either diversifying their energy sources or negotiating with the US for a discount to trade with Iran. The new round of sanctions against Iran has bipartisan support in the US. In fact, some senators, like Senate Banking Committee Chairman Tim Johnson (Democrat) and Alabama Senator Richard Shelby (the panel's top Republican), contend that the sanctions imposed by the Obama administration and the EU are insufficient to prevent Iran from pursuing a nuclear weapons programme. They have proposed a new legislation including provisions for an expansion of US sanctions to include companies involved in joint energy ventures anywhere in the world in which Iran is a major partner or investor. These sanctions would also apply if Iran were to receive energy technology or information that was not available to it previously. The bill (announced by the Senate Banking Committee) is likely to win strong bipartisan support. Last year, the Senate voted 100-0 for a measure sponsored by Senators Bob Menendez (Democrat) and Mark Kirk (Republican) to the annual defence bill that targeted financial institutions that do business with Iran's Central Bank.

## The EU's Response

The EU formally adopted an oil embargo against Iran and agreed to a freeze on the assets of the Central Bank of Iran on January 23, 2012. Under the new embargo, all new contracts for crude oil and petroleum products between Iran and any of the EU's 27 member states will be forbidden. Existing contracts have to be suspended by the end of June 2012. There will be a review of the embargo on May 1, 2012, a month before all oil contracts cease. The provision of six months to suspend existing oil contracts with Iran has been made because the EU is the second-biggest (after China) destination of Iranian oil accounting for 18 per cent of Iranian oil exports. Some EU countries, especially Spain, Italy, Greece and the Netherlands are among the largest importers of Iranian oil and are seeking a slow and gradual implementation of an oil embargo. Their currently fragile economies need time to deal with the direct repercussions of the embargo on the Iranian oil. Greek officials have said that their country imports up to 40 per cent of oil from Iran and want to continue the flow without disruption and on the same funding terms. For Italy, a phased approach is necessary as Iranian oil imports serve to repay the large debts Tehran owes to the Italian national oil company *Eni*.

Diplomats and traders say that the six month grace period would provide European firms time to find alternate sources of crude. The problem of replacement supplies to Europe could be partially solved with the help of Saudi Arabia. European diplomats have discussed

the issue with the Kingdom's leadership, which has indicated its willingness to fill in the supply gap, although concerns are mounting over the capacity of Saudi Arabia to provide for the shortage in the long-term.

Despite the push for sanctions and an embargo, both sides have agreed to reopen talks over nuclear programme which Iran says is purely for civilian purposes. EU's Foreign Policy Chief, Catherine Ashton, who represents the 5+1 group (Britain, China, France, Germany, Russia, and the United States), issued a statement making it clear that a diplomatic path remains open to Iran despite tougher sanctions.<sup>3</sup> A central issue is whether the group would ask Iran to cease enriching uranium to the higher level of 20 per cent, or allow it to continue enriching uranium at a lower level for the time being.

## China's Stand

Asian countries are among the largest importers of Iranian oil and the major Asian powers have been critical of the new round of tougher US sanctions against Iran. At the same time, they are exploring prospects of diversified sources of energy supplies to meet their critical needs. China has opposed the US sanctions saying it will continue to trade directly with Iran. China's foreign ministry spokesman, Hong Lei, specifically said that one country placing its domestic law above international law, and applying coercive measures impinging on the free functioning of another country's foreign and trade relations, would be counter-productive. He also added that all sides concerned should step up their diplomatic efforts for dialogue and negotiation, take new measures to enhance mutual trust, and create favourable conditions for addressing Iran's nuclear issue appropriately.<sup>4</sup>

China and Iran have become major economic partners in recent years, partly due to the withdrawal of Western companies in line with sanctions against Iran. In July 2011, the two countries signed a series of agreements worth \$4 billion for infrastructure projects in the water, mining, energy, and industrial sectors.<sup>5</sup> China's foreign ministry spokesperson acknowledged that China has regular "open and transparent economic and energy interactions with Iran," and was of the opinion that "These interactions do not violate United Nations (UN) Security Council resolutions and will not impair third party interests."<sup>6</sup> However, it is also a fact that Beijing has already been driving a hard bargain with Iran. China, which bought 11 per cent of its oil from Iran from January to November

---

<sup>3</sup> "West says open to talks with Iran", *Mehr News*, January 21, 2012, available at <http://www.mehrnews.com/en/newsdetail.aspx?NewsID=1514912>, accessed on February 25, 2012.

<sup>4</sup> "Chinese Foreign Ministry Spokesperson Hong Lei's Regular Press Conference", January 4, 2012, available on the website of the Ministry of Foreign Affairs of the People's Republic of China, at <http://www.fmprc.gov.cn/eng/xwfw/s2510/2511/t893658.htm>, accessed on January 16, 2012.

<sup>5</sup> "China Opposes 'Unilateral' US Sanctions on Iran," *Khaleej Times*, January 4, 2012, available at [http://www.khaleejtimes.com/DisplayArticle09.asp?xfile=data/middleeast/2012/January/middleeast\\_January102.xml&section=middleeast](http://www.khaleejtimes.com/DisplayArticle09.asp?xfile=data/middleeast/2012/January/middleeast_January102.xml&section=middleeast), accessed on January 8, 2012.

<sup>6</sup> See "Chinese Foreign Ministry Spokesperson Hong Lei's Regular Press Conference", n. 5, ,

2011, has cut its January 2012 purchase by about 285,000 barrels per day (bpd), more than half of the nearly 550,000 bpd that it bought through the 2011 contract.<sup>7</sup> Moreover, Chinese Premier Wen Jiabao is pressing Saudi Arabia to open its oil and gas wealth to increased Chinese investment. On January 14, 2012, Jiabao told Saudi Arabia's Crown Prince Nayef, "China and Saudi Arabia are both in important stages of development and there are broad prospects for enhancing cooperation."<sup>8</sup>

## Russian Reactions

Disapproving of the new round of US sanctions, the Russian Deputy Foreign Minister Sergei Ryabkov stated that negotiations alone were sufficient to deal with the Iranian nuclear question. He added: "Regardless of any conditions...be those the conditions in which the Iranian nuclear programme expands or others, we are against the application of such measures against Iran."<sup>9</sup> In a bold move, Russia has also gone ahead with plans to phase out the use of the US dollar in its trade relations with Iran, using instead the Rouble and Rial for bilateral trading. On January 20, the Iranian Ambassador to Moscow, Seyed Sajjadi, stated that Iran and Russia have begun using the Rial and Rouble in bilateral trade as an alternative to the US dollar. He said, "We started this work long ago. Iranian businessmen are buying products in Russia and are using the Rouble as (payment) currency."<sup>10</sup> If Russia does not accept US and EU sanctions, it would not only be a setback for the West but also affect the efficacy of the sanctions.

## Japanese and South Korean Responses

Japan and South Korea are especially concerned about the US unilateral sanctions as both countries are heavily dependent on energy imports from Iran. They are also in a tricky position vis-à-vis the sanctions given their strong relationship with the US. Japan relies on the US for most of its national defence and thus has to comply with the sanctions, however much it may hurt its energy market especially now that most of Japan's nuclear energy production has been halted after the March 2011 earthquake and tsunami.

---

<sup>7</sup> "Iran Embargo Gathers Support in Asia, Europe", *Khaleej Times*, January 13, 2012, available at [http://www.khaleejtimes.com/DisplayArticle08.aspx?xfile=data/middleeast/2012/January/middleeast\\_January336.xml&section=middleeast](http://www.khaleejtimes.com/DisplayArticle08.aspx?xfile=data/middleeast/2012/January/middleeast_January336.xml&section=middleeast), accessed on January 19, 2012.

<sup>8</sup> "China's Wen Presses Saudi Arabia for Oil, Gas Access", *Al Arabiya News*, January 15, 2012, available at <http://www.alarabiya.net/articles/2012/01/15/188365.html>, accessed on January 17, 2012.

<sup>9</sup> "Kremlin opposes oil embargo against Iran", *Mehr News*, January 11, 2012, available at <http://www.mehrnews.com/en/newsdetail.aspx?NewsID=1507796>, accessed on January 25, 2012.

<sup>10</sup> "Iran, Russia Use Domestic Currencies in Trade Ties", *Mehr News*, January 21, 2012, at <http://www.mehrnews.com/en/newsdetail.aspx?NewsID=1514758>, accessed on January 27, 2012.

On January 12, 2012, Japan pledged to take concrete action to cut its oil imports from Iran in response to an appeal for support from the visiting US Treasury Secretary Timothy Geithner. According to the Japanese Finance Minister Jun Azumi, Japan buys 10 per cent of its oil from Iran. “We would like to take action concretely to further reduce in a planned manner,” Azumi said, adding, “It would cause immense damage if they were cut to zero.”<sup>11</sup> The Japanese Ambassador to Tehran, Kinichi Komano, has said that the imposition of sanctions on Iran’s oil industry will negatively affect the economic situation of the world in general and Japan in particular. Japan’s state-owned exploration company, Impex, has already bowed to US pressure to abandon its joint development of the Azadegan natural gas field. However, Japan has sought extra supplies from Saudi Arabia and the United Arab Emirates.

South Korea is another major buyer of Iranian crude. The Korean Minister of Knowledge Economy, Hong Suk-woo, told Reuters that “it was too early to say” if Seoul would reduce oil imports from Iran. He also added, “our basic stance is to cooperate with the US.”<sup>12</sup>

## Pakistan’s Reactions

Pakistan has also disapproved of the new sanctions against Iran. Foreign Minister Hina Rabbani Khar stated that neither the UN nor US sanctions against Iran will impact upon Pakistan’s deal to import Iranian gas. Khar said the export of natural gas from Iran did not fall under the UN sanctions. She also added that “Pakistan is bound to accept UN sanctions but has not accepted any pressure in this connection.”<sup>13</sup> Khar also accepted that Pakistan is suffering severe gas shortages and added that Pakistan would utilise all options to meet the shortage, including importing gas from Iran.

## Reactions in West Asia

Turkey does not appear to be convinced by the new measures taken by the West. Turkish Foreign Ministry spokesman, Selcuk Unal, said Ankara is not committed to unilateral or multilateral sanctions on Iran. During his recent visit to Ankara in January, the US Deputy Secretary of State William Burns appealed to the Turkish Government to uphold the US unilateral sanctions on Iran, but to no avail. Turkey’s energy and natural resources

---

<sup>11</sup> Parisa Hafezi, “Iran embargo gathers support in Asia and Europe”, *Reuters*, January 12, 2012, available at <http://www.reuters.com/article/2012/01/12/us-iran-idUSTRE8090ZL20120112>, accessed on February 24, 2012.

<sup>12</sup> See “Iran Embargo Gathers Support in Asia, Europe”, n. 8.

<sup>13</sup> “US, UN Sanctions Not to Affect Gas Import from Iran: Hina”, *Pakistan Tribune*, January 5, 2012, available at <http://paktribune.com/news/US-UN-sanctions-not-to-affect-gas-import-from-Iran-Hina-246455.html>, accessed on February 14, 2012.

minister, Taner Yildiz, said on February 16 that “Sanctions the US and the EU impose among themselves on Iran do not legally bind us, only UN resolutions and rules would bind Turkey.”<sup>14</sup>

Saudi Arabia immediately offered its services to fill any supply gap that will emerge from the fall in Iranian oil exports due to the sanctions. It had similarly shored up oil supplies when Libyan oil became unavailable during military operations in 2011. The Saudi Oil Minister, Ali al-Naimi, said on January 7 that Saudi Arabia, the world’s largest oil exporter and the only one in OPEC with significant reserves to spare, was ready to meet any increase in demand.<sup>15</sup> However, the Saudi claim to fill any supply gap is questionable. It is reported that nine out of the 21 oil fields in Saudi Arabia are declining. The largest oil field of Saudi Arabia and currently the largest conventional oil field in the world, Ghawar, which produced half of Saudi Arabia’s total oil production over the last 50 years, is declining.<sup>16</sup> Yet, the IEA director for energy markets and security, Didier Houssin, has stated that “there are alternative supplies that can make up for any loss of Iranian oil exports,”<sup>17</sup> given increased oil production by both the OPEC and non-OPEC countries in the second half of 2012. However, the IEA also warned that the growing tension between Iran and the West was causing the burden of rising oil prices on the global economy.

Iran and Saudi Arabia are major contestants for influence in the Islamic world. Saudi Arabia is apprehensive of Iranian influence over the kingdom’s Shiite minority in its Eastern Province, which also happens to contain most of its oil reserves. Further, the Saudi decision to send troops into Bahrain to put down the turbulence there in March 2011 was clarified by Saudi Arabia and other Gulf countries as an essential act to stop Iran from fomenting instability in the Sunni-led kingdom and the wider Arabian Peninsula. Iran’s nuclear programme has especially alarmed its Arab neighbours and the tension between them has grown.

---

<sup>14</sup> “U.S., EU Sanctions on Iran not Binding for Turkey”, *Turkish Weekly*, February 16, 2012, available at <http://www.turkishweekly.net/news/131450/u-s-eu-sanctions-on-iran-not-binding-for-turkey.html>, accessed on February 25, 2012.

<sup>15</sup> “Iran Warns Gulf Arabs on Oil”, *Guardian*, January 15, 2012, available at <http://www.guardian.co.uk/world/feedarticle/10042084>, accessed on January 28, 2012. Also see “US Sanctions On Iran Oil Exports – Reactions and Implications,” January 8, 2012, available at <http://politact.com/analysis-of-perception-and-perspective/us-sanctions-on-iran-oil-exports-reactions-and-implications.html>, accessed on January 15, 2012

<sup>16</sup> Samir Pradhan, “Gulf’s Role in India’s Energy Security: Exploring Policy Options,” Paper Presented at 14<sup>th</sup> Asian Security Conference, 13-15 February 2012, at IDSA, New Delhi.

<sup>17</sup> “IEA official says markets can get by without Iranian oil”, *The Australian: World Business News*, February 21, 2012, available at <http://www.theaustralian.com.au/business/world/iea-official-says-markets-can-get-by-without-iranian-oil/story-e6frg90o-1226276734068>, accessed on February 25, 2012.



## Iranian Reactions

Iranian officials reacted strongly to the Saudi assertion, and warned their Arab neighbours, especially Saudi Arabia, that they would suffer consequences if they raised their oil output to replace Iranian crude. Iranian OPEC Governor, Mohammad Ali Khatibi, has said that Tehran would regard any move by neighbouring Gulf Arab oil exporters to make up for Iranian crude as an unfriendly act. He added that “if (they) give the green light to replacing Iran’s oil these countries would be the main culprits for whatever happens in the region – including the Strait of Hormuz.”<sup>18</sup>

Iran has harshly criticised new steps taken by the US and the EU to ban its oil exports saying it was “an economic war” through sanctions. Iran’s foreign ministry issued a statement saying that the EU has “adopted illogical and unjustifiable decisions about the Islamic Republic of Iran in line with their illegal policies.”<sup>19</sup> Iranian Oil Ministry spokesperson Ali Reza Nikzad-Rahbar announced on February 19 that crude exports to British and French companies have been halted. The National Iranian Oil Company (NIOC) has also put conditions on oil firms in Britain and France for buying Iranian crude. The NIOC managing director, Ahmad Qalebani said “They have to sign 2 to 5 year contracts. Moreover, they should not set any precondition for buying Iranian crude.”<sup>20</sup> Iran has also threatened to close the Strait of Hormuz, a chokepoint for 20 per cent of the world’s tanker-carried oil at the entrance to the Gulf. The US Defence Secretary, Leon Panetta, has warned that such a move would amount to crossing a “red line.” On January 8, 2012, Panetta added that “we made very clear that the US will not tolerate the blocking of the Strait of Hormuz.”<sup>21</sup>

In subsequent weeks, however, Iran agreed to discuss the nuclear issue with the IAEA. A high-level team from the IAEA, headed by Herman Nackaerts, the IAEA deputy director and the head of the IAEA Department of Safeguards, visited Iran and held discussions with Iranian officials in Tehran between January 29 and 31. According to *Mehr*, the talks were held in a positive atmosphere and both sides agreed to continue negotiations. Iran’s IAEA envoy, Ali Asghar Soltanieh, stated: “We are open to discuss any issues that the

<sup>18</sup> “Iran Calls OPEC Unity in Response to EU Ban on Iranian Crude,” *Tehran Times*, February 4, 2012, available at <http://tehrantimes.com/economy-and-business/95104-iran-calls-opec-unity-in-response-to-eu-ban-on-iranian-crude>, accessed on February 5, 2012.

<sup>19</sup> The Iranian Ministry of Foreign Affairs, issued a communiqué condemning European Union’s imposed sanctions on Iranian oil, stressing that such moves would bear bitter fruits. See “Iran: Illogical Decisions to Bear Bitter Fruits for EU”, January 24, 2012, available at <http://www.mfa.gov.ir/NewsShow.aspx?id=2952&menu=108&lang=en>, accessed on January 30, 2012.

<sup>20</sup> “Iran sets conditions on French, British firms for buying crude,” *Mehr News*, February 22, 2012, available at <http://www.mehrnews.com/en/newsdetail.aspx?NewsID=1541299>, accessed on February 25, 2012.

<sup>21</sup> “U.S. Will Respond if Iran Closes Strait of Hormuz: Panetta”, *Al Arabiya News*, January 8, 2012, available at <http://www.alarabiya.net/articles/2012/01/08/187161.html>, accessed on January 31, 2012.

IAEA is interested to discuss, within the framework of its mandate of course ... I am optimistic that we will have a constructive, professional, technical meeting."<sup>22</sup>

On February 20-21, 2012, a senior IAEA expert team visited Tehran. The visit was the second in less than a month and was aimed at clarifying all 'outstanding substantive issues' surrounding Teheran's nuclear programme. But no agreement was reached between the two sides. IAEA Director General Yukiya Amano said "It is disappointing that Iran did not accept our request to visit Parchin during the first or second meetings".<sup>23</sup> In response, Ali Asghar Soltanieh, Iran's ambassador to the IAEA, said the IAEA delegation was not allowed to inspect the Parchin military site since no agreement had been reached in this regard. He added: "For any visit and access there should be some sort of modality and agreement. It was assumed that after we agreed on the modality then access would be given."<sup>24</sup>

The Iranian Government has categorically denied that the sanctions have had any negative impact on its economy. However, it must be noted that the prospect of sanctions targeting the oil sector has for the first time impacted Iran's currency, which reached a record low and fell by 40 per cent against the dollar in the past month.<sup>25</sup> Tougher Western sanctions mean customers will be able to insist on deeper discounts for Iranian oil, thus reducing Tehran's income. The impact of declining government income from oil sales can be seen on the streets of Iran in terms of soaring prices for state subsidised goods and the collapsing value of the currency.

Some analysts believe that Iran's leadership, which has thrived on defiance of the West since the 1979 Islamic Revolution, is more likely to dig in rather than back off in response to sanctions aimed at stopping a nuclear programme that many Iranians regard as a matter of national pride and modernisation.

## Implications for India

The new sanctions would impact upon India largely because Iran is the second-largest oil supplier to India after Saudi Arabia. India imports around 11-12 per cent of its oil from Iran, and this is critical to meeting its energy demands. India is the world's fourth-largest petroleum consumer and purchases around \$12 billion worth of Iranian crude every year.

<sup>22</sup> "Iran says ready to discuss "any issues" with IAEA," *Reuters*, January 17, 2012, available at <http://www.reuters.com/article/2012/01/17/us-nuclear-iran-iaea-idUSTRE80G13E20120117>, accessed on February 25, 2012.

<sup>23</sup> "IAEA Expert Team Returns from Iran," IAEA Press Release, February 22, 2012, available at <http://www.iaea.org/newscenter/pressreleases/2012/prn201205.html>, accessed on February 23, 2012.

<sup>24</sup> "Modality was needed for Parchin visit: Iran's IAEA envoy", *Mehr News*, February 24, 2012, available at <http://www.mehrnews.com/en/newsdetail.aspx?NewsID=1542475>, accessed on February 26, 2012.

<sup>25</sup> "Iran threatens U.S. Navy as sanctions hit economy," *Montreal Gazette*, January 4, 2012, at <http://www.montrealgazette.com/business/Iran+threatens+Navy+sanctions+economy/5944358/story.html>

India can approach the US for waivers or reject the sanctions on the ground that the US and the EU sanctions do not apply to it. However, waivers are normally granted for a fixed term and need periodic review.

It is noteworthy that India has made it clear that it will continue to import crude oil from Iran. Finance Minister, Pranab Mukherjee, has said that “It is not possible for India to take any decision to reduce the imports from Iran drastically, because among the countries which can provide the requirement of the emerging economies, Iran is an important one.”<sup>26</sup> Foreign Secretary Ranjan Mathai has also stated that India will only accept sanctions imposed by the UN.<sup>27</sup> Mangalore Refinery and Petrochemicals Ltd (MRPCL), India’s biggest buyer of Iranian crude, declared in January 2012 that it would continue to purchase Iranian oil.

India has been struggling for the past year to find a viable mechanism to pay for Iranian oil after the Reserve Bank of India was forced by sanctions on Iran to scrap the Asian Clearing Union, which served as a clearing house for trade with Iran. For a while, India made its oil payments through a German bank and, later, through a Turkish bank; but the US and the EU sanctions have made these options impossible as well.<sup>28</sup> India has also bargained with Tehran to accept Indian Rupees for its oil payments. Though India has taken steps to continue to purchase Iranian oil, sanctions against Iran’s Central Bank would make it more difficult for India to pay for Iranian oil.

## Conclusion

It is clear that US unilateral sanctions will not only impact Iran, but any country dealing with it. While the EU has supported the new sanctions, powers like Russia, China, and India favour negotiations with Iran. The new sanctions law, if implemented fully, would make it difficult for foreign refineries to pay for Iranian crude oil. The new US law takes effect gradually and lets the Obama Administration grant waivers to avoid an oil price shock. Though China, Russia, India, and other countries have already indicated their unwillingness to back an oil embargo, oil prices have already started rising. Iraqi oil fields are yet to recover and the Saudis are pumping oil as much as they can, and the rest of the world does not have the capacity to compensate for the second largest oil producer in the OPEC going out of the market. In the event of oil production and supply getting disrupted, it will affect not just the Iranian economy but the global economy as well.

---

<sup>26</sup> “India to Continue Oil Imports from Iran Despite West’s Sanctions”, *Fars News*, January 30, 2012, available at <http://english.farsnews.com/newstext.php?nn=9010172961>, accessed on January 31, 2012.

<sup>27</sup> “India Rejects US Embargo, to Import Oil from Iran”, *Times of India*, January 18, 2012, available at <http://timesofindia.indiatimes.com/india/India-rejects-US-embargo-to-import-oil-from-Iran/articleshow/11533906.cms>, accessed on January 18, 2012.

<sup>28</sup> “US sanctions on Iran: India keeping all options open,” *Economic Times*, January 7, 2012, at [http://articles.economictimes.indiatimes.com/2012-01-07/news/30601843\\_1\\_iranian-oil-asian-clearing-union-new-sanctions](http://articles.economictimes.indiatimes.com/2012-01-07/news/30601843_1_iranian-oil-asian-clearing-union-new-sanctions)