



Iran's economy is suffering severely from sanctions, but President Rohani's charm offensive has divided opinion inside and outside his country. **Peter Shaw-Smith** reports

> **The key goal for Iran in negotiations** over its nuclear programme with the West is the removal or weakening of the international sanctions regime that has prevented it from fully exploiting its ability to export crude oil and natural gas. Such a prospect hasn't gone down well in the Gulf. Khalaf Al Habtoor, perhaps Dubai's leading Emirati construction magnate, has hit out at US overtures to Iran. In a 24 October commentary entitled 'America's dalliance with Iran alienates Middle East allies', he said America's closest regional allies were "reeling from a series of shocks undermining their national security and interests, delivered by the Obama administration". He wrote: "Washington has been hammering nails into the coffin of US-GCC relations since it failed to support Saudi-Gulf military intervention in Bahrain to thwart a violent Iran-backed insurgency. ... Without question, the most destructive nail of all has been the US administration's flirtatious advances towards its supposed sworn enemy, Iran, whose leadership has been fluttering its eyelashes westwards to get crippling UN, US and EU sanctions lifted."

Riad Kahwaji, founder and CEO of the Institute for Near East and Gulf Military Analysis, explained "that in the UAE, like all other places, you have hawks and you have doves. There are strong divisions of opinion in every country in the region. It's clear that these views are predicated on Iran's policy in Syria. Relations have seriously deteriorated between Iran and Arab countries, not just the Gulf."

Justin Dargin, an energy expert at the University of Oxford in the United



Iran's nuclear option

Kingdom, said the impact of sanctions had been catastrophic for the Iranian energy sector. "In September, Iran produced about 2.58M bpd, the lowest level since 1989, when [it] was attempting to rebuild after the disastrous war with Iraq. Before the sanctions were implemented in early 2011, Iran produced about 3.5M bpd. Exports have similarly dropped, as ... the overall Iranian economy began to implode."

The US Energy Information Agency (EIA) said Iran was the sixth-highest global oil producer in 2012, at almost 3.6M bpd. The country has the world's fourth-largest oil reserves (155Bn barrels) and the second-largest gas reserves. "International sanctions are redefining the Iranian energy sector, and the lack of foreign investment and technology is affecting the sector profoundly," the EIA said.

Despite international sanctions, Iran exported an average of 1.53M bpd of crude oil in 2012, the agency added, citing International Energy Agency data. By September 2013, the monthly figure had fallen to 1.17M bpd, according to press reports, a fraction of its full capability.

National Iranian Tanker Company (NITC) has traditionally carried Iranian crude to China, India, Japan, and South Korea from Kharg Island and Asaluyeh. In January 2012 the company was also able to take delivery of crude cargoes from Ras Tanura, Saudi Arabia, bound for global markets but later that year this right was removed because of sanctions, said Yaghoobi Mohammad, operations manager at NITC's Sharjah office in the UAE.

"We had business with other GCC countries, including Saudi Arabia and Kuwait [in early 2012]. We took crude from those places but after EU sanctions were imposed we could not transport oil from there. For two years now we have not been transporting any oil from Gulf countries. NITC also cannot take cargoes to the ports of EU countries. The EU is not taking oil from us and we cannot carry it for them," he said.

Mohammad confirmed that all 12 VLCCs in a reported \$1.2Bn order at Chinese yards had been delivered, the last arriving earlier this year. "Our total fleet is 63 vessels, mostly VLCCs, but also Aframax,

2.58Bn bpd

Iranian oil production in September, the lowest for a generation

155Bn

Iran's oil reserves in number of barrels, the fourth-largest in the world

Panamax, and Suezmax. We have no plans at the moment to increase fleet size."

A 27 October *Washington Post* report said: "Under the US-led sanctions, some importers of Iranian crude have been granted short-term waivers to continue buying if their imports demonstrate significant declines during six-month intervals. China, India, and Japan received such exemptions. The flow of oil is vital to Iran, as oil exports make up nearly half of its revenue."

Dargin said NITC and IRISL had engaged in name and flagging changes, blending of Iranian oil, and ship-to-ship oil transfers to circumvent international sanctions and to hide the origins of Iran's crude. As the sanctions forbid European companies from insuring Iranian shipping, the Iranian government has stepped in and offered sovereign insurance for its shipping fleet.

"For Asian customers, such as India, Iran has offered discounts on crude purchases and free delivery to buyers' ports.

Furthermore, India, one of Iran's major customers, has also offered sovereign insurance for refineries importing from Iran. Through a loophole in the law, Iran has previously chartered a vessel covered by one of India's state-run firms," he said. "As most of the world's shipping companies shun business with Iran, [the country] has been increasingly relying on its national tanker fleet to ship oil abroad. As a result, NITC has purchased several tankers over the past year."

Dubai eventually succumbed to US efforts to

enforce sanctions on Iran, said Kahwaji. "The UAE, after pressure from the US, especially in Dubai, adhered to the sanctions. Several businesses that were heavily based on trade with Iran, especially in running technical products or materials, which came under the aegis of US sanctions, were based in Dubai."

As a result of Dubai observing the sanctions the UAE lost \$2-3Bn/year, Kahwaji said. Much of the business that used to come from Dubai went to smuggling, from places such as the Sea of Oman. More of it went to central Asian states. Kahwaji believes Dubai will be eager to resume trade. "Now the US is engaged, and now that Iran has an incentive [to play ball], it will ease sanctions. The US will not and cannot expect countries to adhere to sanctions if it is not doing so itself ... I expect an improvement in relations with Dubai and Oman. We wait to see how things will impact [on] the Saudis and whether this will have any positive or negative impact on trade. Sanctions will definitely be eased and business will be back to normal in the Gulf region."

Iran is desperate for investment from international oil companies and has indicated it will scupper the controversial 'buyback' contractual model to stimulate this, Dargin said. "[We] are close to a breakthrough agreement on the Iranian nuclear programme, as most sides involved in the talks have come to the table in a mode of compromise. Nonetheless, despite the current thaw in Iran's relationship with the West, the removal of sanctions would take time and would not be immediate upon an agreement on the Iranian nuclear programme." **E**

> Key points

- Iran's revenue-critical energy sector has been crushed by sanctions
- New president Hassan Rohani is leading efforts to get the sanctions lifted