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The Granting of Exemptions from U.S. Sanctions on Iran: An Analysis of its Implications

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ABSTRACT In an effort to financially hobble Iran, the United States mandated nations to halt their imports of crude from the country by early November, or else risk attracting sanctions themselves from Washington. Not long after, the US announced that eight nations will be exempted from these sanctions, supposedly in recognition of their effort to cut down on their imports of Iranian oil. This brief argues that while it is true that certain countries did meet this criterion, it would be prudent to be critical of the assertion that *all* exempted nations actually reduced imports of Iranian oil. The brief analyses the imports data for these eight countries that are being given exemptions, and theorises that the intended clampdown on Iran seems to be, at least at the moment, an unachievable aspiration.

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INTRODUCTION

Following the United States' withdrawal from the Joint Comprehensive Plan of Action (JCPOA, or the Iran Nuclear deal) in May 2018, Washington reinstated scathing sanctions against the Islamic Republic of Iran. These sanctions came into full effect on 5th November. The Trump administration's objective was to "punish" the Middle Eastern nation for supposedly violating the terms of the deal. The move has had drastic implications for countries across the globe, especially in the energy sector; Iran is, after all, one of the world's foremost exporters of petroleum.

Fossil fuels contributed more than 53 percent of Iran's exports in 2017-18, and accounted for close to 15 percent of its US$ 440-billion Gross Domestic Product.[1] Nullifying the Islamic Republic's share in the global trade of a commodity that is highly crucial to their economic sustenance was, therefore, a strategic imperative for the United States' attempt to financially cripple Tehran. Unsurprisingly enough, the Trump administration then mandated that nations across the globe bring imports of crude from Iran to a complete halt by the 5th of November, or else risk attracting sanctions against themselves from Washington.

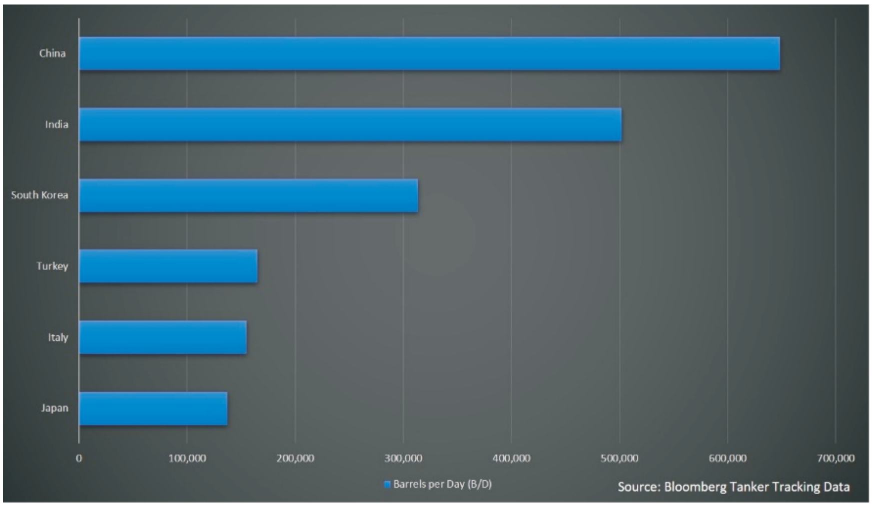
However, given that several nations among the world's largest importers of oil, such as China and India, are heavily dependent on intake from Iran to ensure the meeting of their massive energy demand, there is widespread speculation within diplomatic circles that the US will award exemptions to certain countries.[2] Receiving such an exemption would allow the concerned country to continue importing oil from Iran, past the aforementioned deadline, for an initial period of 180 days.[a] The requirements for securing such exemption remain unclear. Yet, the very suggestion recognised that it was impossible to expect countries importing substantial amounts of oil from Iran, to bring inflows to a complete halt in the short period between the announcement of sanctions in May, and their actual enforcement in November.

Not many therefore were surprised when US Secretary of State Mike Pompeo, in a recent address detailing the sanctions, announced that eight countries would in fact receive specific exemptions, in recognition of their significant efforts to reduce imports from Iran between May and November.[3] The nations—namely, China, India, South Korea, Turkey, Italy, Japan, Taiwan, and Greece—were accorded the exceptional treatment, because – in Pompeo's words – of the responsibility toward the specific circumstances of these countries, and also to ensure adequate supply in the oil market.[4] As illustrated in Fig. 1, the first six of the eight countries mentioned above, were the biggest importers of Iranian oil in 2017-18.

The policy of handing out waivers has received criticism not only from Democrats, but also from hardline conservatives – a faction of the American political spectrum that has rigidly defended the policies of the Trump

a. A further extension of the initial period is subject to renewal by the United States, once 180 days have elapsed. Such renewals shall be contingent on American policy, as well as examination of behaviour of the concerned nation.

Fig. 1: Destinations for Iranian Oil Exports



White House.[5] President Trump then sought to justify the exemptions, saying he did not "want to be a great hero" by nullifying Iranian oil exports immediately, even though he could easily do so, as this would drive global oil prices up substantially.[6] Trump and Pompeo also declared that the sanctions have achieved their desired effects: the Secretary of State said the Iranian regime has lost US$ 2.5 billion in oil revenues, and has reduced exports by one million barrels per day (b/d) since May; the President called this round of sanctions the "toughest" ever imposed:, and stated that they had already "cut half of Iran's capacity".[7] Political rhetoric aside, it is important to note that the US emphasised substantial reductions of Iranian oil imports as the criteria that qualified a nation for a waiver.[8] While it is true that certain countries did meet this criterion, it would be prudent to be critical of the assertion that *all* exempted nations actually reduced imports of Iranian oil.

NULLIFYING IMPORTS FROM IRAN: EMPIRICAL PROOF

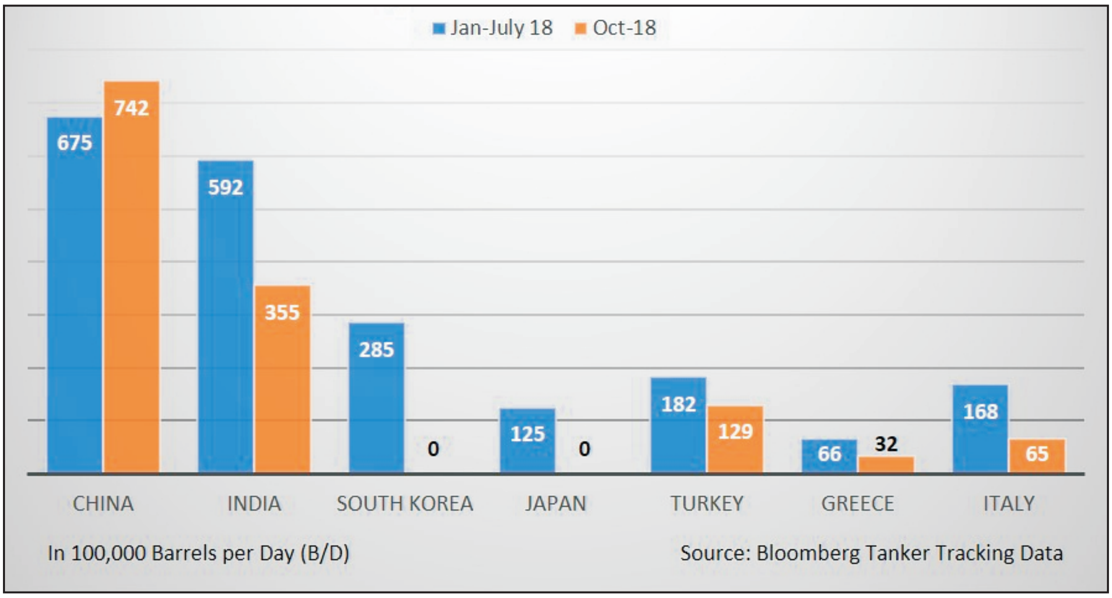
This brief investigates trends in the imports of Iranian oil by specific nations among the exempted group, and to use the data to understand whether the United States' true motivations for awarding waivers are what the administration has publicly proclaimed. The impact of these exemptions on the intended effects of the sanctions, as well as on the US' position, will also be discussed. A useful entry point for this analysis is a statistical perspective of the behaviour of the exempted countries in the months following the announcement of sanctions.

While Figure 2 shows that Japan and South Korea have nullified imports of Iranian oil in the last few months, it is interesting to look more specifically at countries that have made less significant reductions - Turkey, Greece, and India; as well as the one country that has in fact increased inflows – the perennial outlier to American policy, the People's Republic of China.[9] Any reduction of imports of less than 50 percent in terms of quantity (barrels per day), serves as the criteria for relative "insignificance", for the purposes of this examination.

Turkey

Fatih Donmez, Turkey's Energy Minister, recently said that US sanctions would

Fig. 2: Oil Imports from Iran - Trends



"negatively impact the peace and economy of neighbouring countries like Turkey".[10] The transcontinental republic is one of the key destinations for Iranian crude exports, and imported approximately 165,000 b/d in 2017-18.[11] As Figure 2 shows, Turkey's October intake was a significantly high 70 percent of average imports in the January-June period, and therefore, a reduction of only (approximately) 30 percent took place.[12] One must also take into account the fact that speculation regarding the potential of a waiver for Turkey's biggest refiner, Tupras Turkiye Petrol Rafinerileri AS, began in July.[13] While this may be dismissed as an inevitability, given that Turkey's reliance on Iranian oil is greater than that of any other nation, it is possible that the expectation of a major exemption sparked complacency, and was eventually factored into the level of reduction undertaken by the country.

Greece

Greece's reductions have been far more significant than those by Turkey, with the country taking in roughly 50 percent of its January-June quantity in October.[14] The curious development as far as the Hellenic republic is concerned, is that its waiver has taken the global market by surprise. There is talk about the possibility of a resumption of some amount of imports.[15] Much like Japan and South Korea, the nation had almost completely suspended purchases in the weeks leading up to the sanctions deadline.[16] In fact, Hellenic Petroleum SA, one of the nation's largest refiners, received its last shipment of Iranian imports in June.[17] Therefore, Greece seems to have moved in a direction opposite to that of Turkey; it appears that the awarding of an exemption to Athens is deceivingly random.

The twin cases of Turkey and Greece are interesting if observed in comparison to each other – one nation was unusually confident in its expectance of a waiver, and the other seemingly had little hope or need for one. The exemption for Ankara seems to be almost conciliatory in nature. Cognizant of the fact that Turkey was greatly dependent on Iran for its energy needs, and that the Erdoğan government has been highly critical of the American sanctions, the Trump administration could only benefit by allowing some level of exchange.[18] Such a move could go some way in regaining support from a recalcitrant Ankara. Greece, on the other hand, was provided an unexpected boon, and alongside Italy, could be part of an American stratagem to win back favour in an increasingly skeptical Europe. Alongside Japan and South Korea, these countries are representative of a group that are now likely to significantly increase, or in some cases restart purchasing from Iran. This would be antithetical to the immense pressure Washington sought to exert on Tehran. No discussion on the exemptions would be complete without devoting particular attention to the two biggest importers of Iranian oil.

India

India was expected to be one of the countries most exposed to a steep drop in supply, and the concerns of the nation's energy sector can only have been allayed by the US waiver.[19] Indeed, India has led the way in terms of sheer magnitude of reductions, bringing imports down from an average of 592,000 b/d in the January-June period, to approximately 350,000 b/d in October.[20] However, despite earlier deliberations suggesting that India would not buy any Iranian oil in November, plans have surfaced among the country's oil importers of a continuation of purchases of a noticeably high amount of 300,000 b/d.[21] This is the case, despite the fact that additional supply of four million barrels for the month of November, has been secured from Saudi Arabia's Aramco.[22] Further, the fact that New Delhi's imports accounted for 21 percent of Iranian petroleum exports in October—a proportion that is down by only two percent from the January-June period—is a development that does not necessarily fit in with the US' demands.[23]

In the case of India, the US has remained consistent with its public claim. India seems to have received an exemption to allay difficulties in importing oil from alternate sources. Despite skepticism created by the data shown in Figure 2, New Delhi has undoubtedly reduced imports significantly. Further, while many believed that Washington would make the most of the sudden creation of a vacuum in Indian dependency, by boosting their own shale exports, such an approach does not seem to have been taken up – at least in the short term.

China

The one country that has decided to take the sanctions as an opportunity is China. It has already shown interest in developing transportation and communication infrastructure in Iran, and is expected to take up an 80-percent stake in the US$ 5-billion South Pars field development project, specifically after French company Total had to halt operations there.[24] Further, the Shanghai International Energy Exchange in March this year launched contracts for petroleum futures, denominated in Chinese Yuan. This is crucial in Beijing's aim to reshape the global oil market, specifically by greater use of its own currency in oil trade.[25] It fits in conveniently with Iran's proposed approach to circumventing the sanctions – conducting trade in currencies other than the US Dollar – as made clear by a public statement by Foreign Minister Javad Zarif in September.[26]

Rumours of Tehran offering the contracts for development of the Chabahar port – most recently an India-led project – further underline the symbiosis of current vehement anti-US sentiments in the two nations and their desire to use this commonality for their shared benefit.[27] While a visit by senior US officials in September supposedly caused Chinese refiner Sinopec to halve Iranian crude intake in that month, it seems unlikely that Beijing will relent to Washington's sanctions in the long term.[28] The fact that in October, China was the destination for 44 percent of Iranian crude exports, up significantly from 26 percent in January-June, shows Beijing's determination to function only by its own rules.[29]

In the wake of the ongoing trade war between Washington and Beijing, as well as the continued efforts by the People's Republic to redefine the global economic system in its own terms, it is interesting that China received an exemption from the US. The question that comes to mind, of course, is whether the waiver makes any difference to Beijing. To begin with, China has most evidently flouted the US' criteria for the awarding of an exemption, and it does not seem to care much for Washington's punitive actions. This attitude must not be mistakenly perceived as brash hostility – Beijing has always been far more measured, ensuring, at the least, that it outwardly appears to be practicing restraint. While nations frantically negotiated exits from the Iran's business sector to avoid US backlash, China has quietly continued on its course, ramping up influence within the Islamic Republic. It was only when the US directly demanded a steep cutback, that Chinese refiner Sinopec took any action in the direction the rest of the world already had.[30] It is this behaviour – of compliance only when absolutely necessary—that has constantly concerned American analysts.

THE IMPACT OF EXEMPTIONS

By most indications, the American exemption to China was of little *de facto* consequence to Beijing. Still, the *de jure* legitimacy given to the People's Republic through this action is troubling: not only does it symbolise the United States' loss of significant control over Chinese actions, but the exemption will also further embolden Beijing by giving them affirmative permission to continue importing Iranian crude, and by extension, to expand its interests in the Islamic Republic. In circumstances where even Washington's traditional European allies have disagreed with the US' withdrawal from the JCPOA, it is worrying that the US has allowed its greatest adversary this much leverage.[31] Further, this action has come under attack from Democrats in the US Congress, who believe that the awarding of exemptions, specifically to China and Turkey, have compromised the integrity of the sanctions themselves, and have additionally communicated to the world that others do not have to abide by America's restrictions. The fact that the Trump administration is faltering in following even a much-criticised policy move, vindicates the opposition's view that the US should never have withdrawn from the JCPOA, to begin with.

Trump's waiver policy has even aggrieved his most staunch support-base – the hardline conservative Republicans, who believe that the exemptions are evidence of the administration "caving in", and abandoning its policy of maximum pressure.[32] Republican Senator Ted Cruz has argued that the exemption affords the Iranian regime access to wait out the Trump administration, and hope for greater complacency under future regimes.[33] Further, with China's burgeoning interests, and its willingness to flout American sanctions, the intended complete clampdown on Iran seems to be, at least at the moment, an unachievable aspiration.

The withdrawal from the JCPOA has divided opinion since its announcement by President Trump in May. The newly announced exemption policy will only further crystallise the differences in opinion. While one may continue to argue that there is benefit to be accrued in global oil prices and for countries extremely reliant on Iran, the damage the exemptions could cause will seriously impact the US' initial objectives in withdrawing from the JCPOA.

A crisis of faith in the sanctions is on the horizon, as the waivers alienate members of an already slim group of supporters. This development is worrying, not only for the effectiveness of US actions against Tehran, but more significantly, for the Trump administration's foreign policy. Rooted in the aforementioned withdrawal are the core principles of Trump's worldview: protectionism, extreme caution during negotiations, little regard for the stances of allies, and an increasingly transactional understanding of global affairs. Therefore, going forward, a drastic decline in faith in one of Trump's flagship foreign policy objectives could prove to be problematic for the administration's approach. Coupled with this is the inability to take into account indirect implications – including those on Chinese attitudes – while taking important decisions such as withdrawing from the JCPOA or awarding exemptions. Within this environment of extreme unpredictability, only one thing can be ascertained: the reinstatement of sanctions is definitely not the zero-sum game that Trump had expected. The implications of Trump's sanctions and the subsequent waivers will continue to play out over the next few months.ORF

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