

America turns the screws on Iran

Apr. 20th, 2018

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JUST IN TIME for Halloween, the waters around China are filling with ghosts. The *Dino I*, a Panama-flagged tanker, disappeared on October 13th outside Dalian, a big oil terminal. When it switched its transponder back on days later it was near Taiwan—and riding higher on the water. Its cargo, millions of tonnes of Iranian oil, had been discharged in secret. The tanker is now sailing for Kharg Island, where Iran's state oil company has a filling station. At least half a dozen other “ghost tankers” have plied the same route this autumn.

Iran thought it was finished with such chicanery. The deal it signed with six world powers in 2015 lifted most economic sanctions in exchange for strict limits on its nuclear programme. The Iranian president, Hassan Rouhani, promised his people a flood of new investment and jobs. Instead they got Donald Trump, who calls the nuclear pact the “worst deal ever”. (Confusingly, it is not the only deal to which he attaches this label.) He withdrew America from it in May and reimposed some sanctions in August. On November 4th he will put sanctions on Iran's all-important oil industry.

The last time America did this, Iran's exports tumbled from 2.5m barrels per day (bpd) in 2011 to 1.1m bpd three years later. No one knows how far they will fall this time. They have already dropped by about a third since their peak in April of 2.8m bpd. South Korea and Japan stopped buying Iranian oil. India reduced its imports. China is harder to gauge, in part because vessels like the *Dino I* hide themselves. Other tankers have moved millions of barrels into storage to await future buyers. Iran may lure them by offering it at a discount.



By year's end, though, Iranian oil sales will be at least 1m bpd below their peak. Oil accounts for almost 70% of its exports and half of government revenue. The economy is

already weak. Inflation climbed to 15.9% last month. The rial trades, unofficially, at around 150,000 to the dollar, down from 40,000 a year ago. Strikes and protests break out daily. Truckers walked off the job in September to complain about rising costs. Teachers staged a sit-in weeks later.

Despite the economic turmoil, Iran has not restarted its nuclear work. Instead it has appealed to Europe, hoping that the deal's other parties will help it bypass the sanctions. In August the European Union enacted a "blocking regulation" that prohibits European firms from complying with them. EU leaders have also mooted creating a clearing-house to handle trade with Iran denominated in euros. This would allow firms to bypass American banks, and thus American sanctions.

These efforts sound good in theory. But Iran should not expect them to work. European firms will ignore the blocking regulation. Total has already pulled out of a deal to develop Iran's main gasfield. Airbus will not deliver scores of passenger jets. The threat of losing access to American markets and the American financial system is too great. No EU member state is yet willing to host the proposed clearing-house. And Iran should not overestimate the support it enjoys in Europe. Federica Mogherini, the EU foreign-policy chief who championed the nuclear deal, will leave office next year. Danish officials have called for sanctions over an alleged plot to assassinate an Iranian dissident in Denmark.

South Korea and Japan, among others, want American waivers to keep buying at least some Iranian oil. Hawks in Washington want to pre-empt this by forcing Iran out of the Society for Worldwide Interbank Financial Telecommunication (SWIFT), the nerve centre of the global financial system. If it loses access, as it did in 2012, buyers would have to barter for Iranian oil or pay in cash. Its biggest customer, China, is happy to do this. During the last round of sanctions it swapped Geely cars and other consumer goods for oil. Disconnecting Iran from SWIFT will mostly hurt ordinary Iranians by making legitimate trade harder.

Mr Trump will not drive Iran's oil exports down to zero, as he hopes. But he will inflict pain. The question is what he hopes to achieve; sanctions are a tool, not a strategy. Barack Obama made clear that he wanted a nuclear deal. Critics argue that his focus was too narrow. Mr Trump has the opposite problem. His secretary of state, Mike Pompeo, has a wishlist for any future agreement. It asks Iran not only to halt its nuclear programme, but also to stop testing ballistic missiles, withdraw its troops from Syria and abandon regional proxies, such as Lebanon's Hizbullah.

Taken together this amounts to asking Iran to change its entire security doctrine of backing Shia militias. The Islamic Republic has maintained that posture despite decades of economic pain. It has little incentive to compromise with a president it sees as bent on regime change.

At the Manama Dialogue, an annual security pow-wow in Bahrain, officials were enthusiastic about this maximalist approach. "Iran is contained," says Adel al-Jubeir, the Saudi foreign minister. Outside the ballrooms of the Ritz-Carlton, however, the picture looks different. Iranian forces have helped Bashar al-Assad to win Syria's civil war. Iranian-backed Houthi rebels continue to torment Saudi Arabia and its allies in Yemen. Hizbullah is poised to gain influence in Lebanon's next government.

Mr Trump is convinced he can make a better deal than his predecessor. But with whom? He has discredited Mr Rouhani, who will leave office in 2021. If Iran is still under crippling sanctions, a hardliner may replace him. And if the oil pumps are still off, the centrifuges may come back on.

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