ARCANUM

Arcanum in the news

Bloomberg Businessweek

IRAN-SANCTIONS BID TARGETS OIL, TANKER COMPANIES' SALES

February 6, 2012

By Indira A.R. Lakshmanan

A U.S. proposal to sanction Iran's state-owned oil company and its main tanker fleet may ensnare any person or business in the world involved in purchasing or shipping Iranian oil.

Tensions over Iran's nuclear program have risen sharply in the last week, with U.S. officials such as Defense Secretary Leon Panetta expressing concern about a potential Israeli military attack by mid-year. As a result, pressure is mounting for additional steps against Iran's economy to force Iranian Supreme Leader Ali Khamenei to halt his country's suspected pursuit of nuclear-weapons capability.

The Senate Banking Committee unanimously adopted a measure Feb. 2 that would compel the administration to investigate links between Iran's crude-oil supply chain and its powerful Islamic Revolutionary Guard Corps, an elite military unit that the U.S. has sanctioned for weapons proliferation, terrorism support and human-rights abuses.

Proponents say hobbling the oil revenue of Iran, the No. 2 producer in the Organization of Petroleum Exporting Countries, is the best way to forestall military action by Israel or the U.S. Iran says its nuclear program is for civilian energy and medical research only.

The White House said today that President Barack Obama had ordered a freeze on all Iranian government and financial institutions' assets under U.S. jurisdiction, which would apply to the state-owned oil company.

'Huge' Consequences

While the administration shares the lawmakers' goals to ratchet up pressure on Iran, it is concerned that adding more U.S. sanctions — before other recent penalties have been implemented — may make some oil buyers unwilling to comply and strain the coalition against Iran, according to U.S. officials who spoke on condition of anonymity because of the issue's sensitivity.

The economic consequences of blacklisting Iran's oil "would be huge," Ali Alfoneh, an Iran specialist at the American Enterprise Institute, a Washington policy group, said in an interview. If other nations comply, "this is in effect an international oil embargo."

The Senate measure would give the U.S. Treasury Department 60 days to investigate whether the Revolutionary Guard owns or controls the National Iranian Oil Co., or NIOC, and the National Iranian Tanker Co., or NITC. The provision, along with a House bill filed Jan. 31, would empower the president to penalize foreign institutions by cutting them off from the U.S. banking system if they deal with the two companies. The proposals allow waivers based on oil market conditions or "significant" reductions in Iranian-oil purchases.

'Distressed Asset'

A global oil embargo isn't the intent of the congressional proposals, according to Mark Dubowitz, executive director of the Foundation for the Defense of Democracies, a Washington policy group that has advised Congress and the administration on sanctions.

Tainting Iran's oil by association with the Revolutionary Guard turns it into "a distressed asset" and increases "the hassle factor" in buying it, he said in an interview. Law- abiding buyers will seek other suppliers, while those who flout sanctions will bargain to buy it cheaply, he predicted.

China was the leading importer of Iranian oil in the first six months of last year, followed by Japan, India and South Korea, according to the U.S. Energy Information Administration.

No. 2 Oil Company

Frank Verrastro, director of the Energy and National Security Program at the Center for Strategic and International Studies in Washington, criticized Congress as "incredibly irresponsible" for seeking more sanctions, as the administration already is trying to get other nations to voluntarily reduce Iranian oil purchases while avoiding a price surge.

Tommy Vietor, a White House spokesman, declined to comment on the proposals yesterday.

NIOC is owned by the government of Iran and is the world's second-largest oil company by volume produced, after the Saudi Arabian Oil Co. NITC, a former subsidiary of NIOC that was privatized 12 years ago, has the world's fourth-largest fleet of supertankers, according to London-based Clarkson Research Services Ltd., a unit of the world's largest shipbroker.

At the very least, sanctions would make it "very hard to buy Iranian oil," and Iran's tankers "would not have access to port facilities internationally, because countries would rather deal with the U.S. than with Iran," Alfoneh said. U.S. companies and individuals are already barred from almost all business with Iran.|

Iran's Blacklist

Iran has vowed to rely on local technology and expertise in the oil industry as international investments and joint ventures have dried up in the face of tougher international sanctions.

Today, Iranian Oil Minister Rostam Qasemi ordered five European companies, including Royal Dutch Shell Plc and UOP LLC, a unit of U.S.-based Honeywell International Inc., blacklisted for failing to meet their commitments to the nation's refinery projects, the state-run news agency Mehr reported.

Queries to NIOC's managing director Ahmad Qalebani about the U.S. congressional bid to investigate the Guard's ties to the oil company were referred to the public relations office. No spokesman was available after three phone calls yesterday.

In a telephone interview from Tehran yesterday, NITC's general manager of planning, Abdolsamad Taghol, dismissed any suggestion of military links to the tanker line. NITC operates independently, without administrative, financial or political ties to the Guard, with only civilian personnel, he said.

Iranian Denial

"NITC's income has never been part of the state budget, and the sole beneficiaries" of NITC's revenue are its shareholders, 7 million Iranian retired pension-fund owners, he said. Taghol cited his company's partnership with BP Shipping before the 1979 Islamic revolution, and said management includes those trained by BP.

The proposed designation of the two companies would add to an array of financial and energy-related penalties imposed by the U.S. and the European Union in the past three months. The EU, collectively the No. 2 importer of Iranian oil in the first half of 2011, last month approved a ban on Iranian oil purchases by the 27-nation bloc set to take effect July 1.

Senator Bob Menendez, a New Jersey Democrat, and Representative Howard Berman, a California Democrat, are behind the new proposal. The Senate measure is part of a larger bill targeting Iran-related banking transactions and mining and energy projects, and requiring corporate disclosure of Iran- related activity to the Securities and Exchange Commission.

'Blood Oil'

Dubowitz praised lawmakers for spotlighting the Revolutionary Guard and casting Iranian crude as "blood oil."

Oil is Iran's main source of income, supplying more than 50 percent of the national budget, according to International Monetary Fund figures. Oil earned the Persian Gulf nation $56 billion in the first seven months of 2011, according to the U.S. Energy Department.

In August, Qasemi, a former Revolutionary Guard commander and former head of Khatam al-Anbiya, its engineering arm, was named Iran's oil minister and chairman of NIOC. He has been sanctioned by the U.S., the EU and others for his ties to the Guard. Khatam al-Anbiya has been sanctioned by the U.S., the EU and the United Nations for being part of the Guard.

Seven of eight members of NIOC's board of directors are executives who serve or used to serve as general managers of NIOC subsidiaries that did business with Khatam al-Anbiya, according to research conducted by the Foundation for the Defense of Democracies and Arcanum, a private intelligence firm with international headquarters in Zurich.

Not Clear Cut

Three of eight members of NIOC's general assembly, which sets the company's policy and budget, are former Revolutionary Guard members: Qasemi and the ministers of energy and of industries and mining, according to the research.

Dubowitz's foundation has said it has established "direct and indirect involvement" of the Revolutionary Guard in NIOC's oil deals in Bolivia, India and Malaysia.

Alfoneh, a specialist on the Revolutionary Guard, said he has tracked growing involvement by the Guard in energy, though he has failed to find evidence showing the group controls the oil company or its decision-making. Likewise, while the Guard are involved in Iran's shipping and ports, Alfoneh said he has no evidence linking the Guard to the tanker company.

'Best-Run' Company

Kenneth Katzman, a senior Middle East analyst at the non- partisan Congressional Research Service in Washington, said Iran "has tried to insulate" both companies from political pressure and patronage, and asserted that "NIOC is widely considered a professional organization — one of the best-run in Iran."

Katzman, author of "Warriors of Islam: Iran's Revolutionary Guard," said Iran has appointed former Revolutionary Guard members to other ministries, and later replaced them with civilians, never putting the ministries under the Guard's control.

It's like arguing that "some U.S. firm is coming under U.S. military control because a lot of former military people have high positions there," he said in an interview.

The U.S. administration, including Secretary of State Hillary Clinton, has repeatedly accused the Revolutionary Guard of expanding influence in the most lucrative sectors of Iran's economy.

Ships Reflagged

The U.S. has already sanctioned Iran's national maritime carrier, the Islamic Republic of Iran Shipping Lines, for involvement in missile programs and transporting military cargoes. A report last month by the Stockholm International Peace Research Institute concluded the carrier had renamed 90 of its 123 ships since 2008 and reflagged some of its fleet in an effort to circumvent sanctions.

"There's always going to be some ways around" U.S. sanctions on oil or tankers, said Michael Swangard, an international trade and commodity partner at Clyde & Co., a London-based law firm. "The rubber only meets the road" when countries agree to a united approach, he said.

Iran, the second-largest oil producer in OPEC after Saudi Arabia, pumped about 3.545 million barrels of oil a day last month, a Bloomberg survey showed, and exported an average 2.58 million barrels a day in 2010, according to OPEC statistics.

Crude for March delivery lost 78 cents to $97.06 a barrel on the New York Mercantile Exchange at 1:40 p.m. today.