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The Future of Iran Oil Sanctions

Tetsuo Morikawa

Executive Researcher, Manager, Oil Group, Energy Security Unit
The Institute of Energy Economics, Japan

The Iranian presidential election held on July 5 was won by reformist Masoud Pezeshkian. He has pledged to engage in negotiations to lift Western sanctions, and the outcome of negotiations with the United States, in particular, is attracting attention. As Sachi Sakanashi of IEEJ's JIME Center pointed out at the IEEJ Energy Webinar on July 12, if the negotiations are successful, some sanctions may be lifted; if the negotiations fail, there is a possibility that the Iranian nuclear crisis will be reignited. In the negotiating counterpart of the United States, President Biden, who performed badly at the presidential debate on June 28 and made repeated gaffes before and after the debate, announced on July 21 that he would not be standing for re-election and expressed his clear support for Vice President Harris as the presidential candidate. Meanwhile, approval ratings for Trump, who was shot on July 13, are rising, and he accepted the presidential nomination at the Republican National Convention on July 18.

It is well known that Western countries have imposed numerous sanctions on Iran. With regard to Iranian oil exports, the former Trump administration placed “the toughest ever sanctions” on Iran (Executive Order 13846) in 2018, which included secondary sanctions on Iranian oil exports. This year, following Iran's launch of drones and missiles at Israel in April, the EU, the United States, and the United Kingdom have strengthened their sanctions. The G7 countries also adopted a joint statement whereby they will impose more sanctions if Iran takes any further destabilizing actions.

In addition, on April 23, the U.S. Senate passed an emergency supplemental appropriations bill on national security. This law attracted much attention as a law that supports Ukraine and Israel, but the sanctions against Iranian oil included in it remained largely unreported. Article D (Ship Act) of the bill adds foreign ports, ships, and refineries that refine and transport Iranian crude oil and petroleum products to the list of sanctions targets, and Article S (Iran-China Energy Sanctions Act of 2023) states that a decision will be made every year on whether to impose sanctions on Chinese companies and others that import large amounts of Iranian oil. Overall, in light of the current situation where large amounts of Iranian oil are being exported to China via Malaysia and other countries, it can be said that the sanctions of 2018 have been strengthened with a focus on the export of Iranian oil to China via

third countries. On the other hand, since there are exemptions for Article D, and sanctions are not immediately implemented under Article S, it is perceived that these sanctions will not directly affect Iranian oil exports in the short term, and have no impact on crude oil prices. However, depending on how this law is implemented, it could lead to a decrease in the volume of Iranian oil exports and, ultimately, of Iran's oil production, which could in turn lead to higher prices.

The Biden administration, which inherited the Joint Comprehensive Plan of Action (JCPOA) (Iran Nuclear Agreement) from the Obama era, has tacitly acquiesced to the evasion of sanctions on Iranian oil exports. As a result, Iran's crude oil production and exports have increased since the Biden administration entered office, with current production at 3.25 million barrels per day and exports at about 1.5 million barrels per day. It is said that 80% of Iran's exports flow to China via Malaysia and other countries. If Vice President Harris or another Democratic candidate wins the presidential election, this law may not be strictly enforced. However, if Trump wins, the situation could be very different.

In its monthly Oil Market Report published on July 11, the International Energy Agency predicted that the oil supply and demand balance will shift from a supply shortage of 100,000 barrels per day for 2024 to a supply surplus of 800,000 barrels per day for 2025. If Trump returns to the presidency and strictly enforces the Ship Act and the Iran-China Energy Sanctions Act of 2023, not only will tighten the market in 2025, there is also a possibility that the conflict between the United States and China will be further exacerbated.

Contact: report@tky.ieej.or.jp