

Iran's Oil Exports Are Vulnerable to Sanctions

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Brief Analysis

Iran continues to export significant volumes of oil, providing a key source of revenue for the regime—and a potential target for increased economic pressure.

In recent months, Iran has increasingly engaged in violations of UN resolutions and international norms, from sending weapons to Russia for use against Ukraine (<https://www.washingtoninstitute.org/policy-analysis/iranian-drones-russia-capabilities-and-limitations>), to brutally suppressing mass protests at home (<https://www.washingtoninstitute.org/policy-analysis/how-irans-protests-differ-past-movements>), to advancing its nuclear program in irreversible ways (<https://www.washingtoninstitute.org/policy-analysis/letting-iran-go-nuclear>). Although Western governments have responded to these actions by imposing limited new sanctions and attempting to isolate Tehran diplomatically, they have not significantly upped the pressure so far.

One potential area in which to do so is the energy sector, where concerted pressure could cut into a key source of government income. The Biden administration has kept its predecessor's "maximum pressure" sanctions in place but has not rigorously enforced them, allowing Iran to increase its energy exports over the past two years. While the Treasury Department sanctions issued on November 3 (<https://home.treasury.gov/news/press-releases/jy1076>) are a step in the right direction, they fall short of a systematic campaign. Taking a stronger approach could impose greater costs on Tehran for its nuclear, regional, and domestic policies.

The Oil Lifeline

Over the past three months, Iran's oil exports averaged between 810,000 and 1.2 million barrels per day (bpd) of crude and condensate (a light liquid hydrocarbon), according to estimates from TankerTrackers, Vortexa, Kpler, and United Against Nuclear Iran. Most of this flow went to companies in China, with entities in Syria, the United Arab Emirates, and Venezuela receiving some as well (the oil sent to the UAE is likely reexported to Asia).

These numbers are far below the roughly 2.7 million bpd Iran was exporting in early 2018, before the Trump administration withdrew from the Joint Comprehensive Plan of Action (JCPOA) and reimposed secondary sanctions. But they are much higher than at the peak of Trump's maximum pressure campaign, when oil import waivers expired in May 2019 and Iranian exports fell to 500,000 bpd or less.

As negotiations to revive the JCPOA began last year, the Biden administration decided not to aggressively enforce maximal sanctions in word or deed, seemingly concluding that this would dampen diplomatic prospects and was ultimately unnecessary (<https://www.reuters.com/business/energy/us-weighs-crackdown-chinas-import-iranian-oil-2021-07-23/>) because the nuclear deal would be revived quickly. Although officials reportedly prioritized private diplomatic efforts (<https://www.reuters.com/business/exclusive-us-has-reached-out-china-about-cutting-oil-imports-iran-officials-say-2021-09-28/>) to encourage China to curtail its purchases, the United States did not issue any energy-related sanctions on Iran until June 2021 (<https://home.treasury.gov/news/press-releases/jy0221>) and imposed only two other batches the rest of the year (in August (<https://home.treasury.gov/news/press-releases/jy0320>) and September (<https://home.treasury.gov/news/press-releases/jy0362>)).

Enforcement measures picked up in 2022—in all, Biden’s Treasury Department has issued ten rounds of sanctions tied to Iranian energy sales. Yet these efforts have been intermittent rather than part of a wider campaign, and they have not had a noticeable impact on Iranian export numbers or the regime’s decisionmaking. The policy of limited enforcement may also have reduced Tehran’s urgency to revive the nuclear deal by giving it valuable economic support and eroding the potential benefits of formalized sanctions relief. Overall, the signal to oil markets was clear: the risk of handling Iranian oil had declined.

Follow the Money

The above export numbers tell only part of the story because they do not account for how much Iran actually earns from its exports. The gap between how much the regime should earn and how much it reportedly does earn demonstrates how costly it is to trade oil clandestinely—and U.S. policymakers should seek to widen this gap.

Oil plays a major role in the Islamic Republic’s ability to generate revenue and access hard currency. In the current fiscal year (March 2022-March 2023), the country expected to export (<https://ecoiran.com/%D8%A8%D8%AE%D8%B4-%D8%A7%D9%82%D8%AA%D8%B5%D8%A7%D8%AF-%DA%A9%D9%84%D8%A7%D9%86-79/11467-%D8%A8%D9%88%D8%AF%D8%AC%D9%87-%D9%86%D9%81%D8%AA%DB%8C-%D8%AA%D8%B1-%D8%B4%D8%AF-%D8%AA%D8%B9%DB%8C%DB%8C%D9%86-%D8%B3%D9%82%D9%81-%D9%85%D9%86%D8%A7%D8%A8%D8%B9-%D9%86%D9%81%D8%AA%DB%8C-%D8%A8%D9%88%D8%AF%D8%AC%D9%87>) 1.4 million bpd at \$70 per barrel, accounting for about one-third (<https://qavanin.ir/Law/ImageText/297402>) of its total revenue. Yet the government does not keep all of the money from these sales—40 percent is owed to the National Development Fund (NDF) and 14.5 percent to the National Iranian Oil Company (NIOC). The government gets the remainder (45.5 percent), with a small portion earmarked for projects in less-developed parts of the country. (Though if the government does not reach its expected targets, it is permitted to dip into the NDF to cover the gap.)

Iran’s budget sets aside a portion of oil revenue to fund imports of basic goods at a subsidized exchange rate. Yet President Ebrahim Raisi and his predecessor steadily winnowed down the list (<https://www.al-monitor.com/originals/2021/10/irans-plan-get-rid-subsidized-exchange-rate>) of goods eligible for this discount; Raisi did away with the system almost entirely this year, causing market turbulence and inflationary pressure. Some oil revenue is also funneled directly (<https://twitter.com/hrome2/status/1470842816679063558>) to military organizations, including the Islamic Revolutionary Guard Corps (IRGC).

Although the government only releases budget data periodically, the available information allows for some estimation of what it actually earns from oil revenue. From April to July 2022, it reported earnings (<https://donya-e-eqtasad.com/%D8%A8%D8%AE%D8%B4-%D8%B3%DB%8C%D8%A7%D8%B3%D8%AA-%DA%AF%D8%B0%D8%A7%D8%B1%DB%8C-100/3891433-%D8%AF%D9%88%D9%84%D8%AA-%D8%A8%D8%B1%D8%A7%DB%8C-%D9%85%D9%87%D8%A7%D8%B1-%D8%AA%D9%88%D8%B1%D9%85-%D9%86%D8%A7%DA%86%D8%A7%D8%B1-%D8%A8%D9%87-%DA%A9%D9%86%D8%AA%D8%B1%D9%84-%D9%87%D8%B2%DB%8C%D9%86%D9%87-%D9%87%D8%A7%D8%B3%D8%AA>) of 650 trillion rials from oil

sales. When accounting for the oil conversion rate (230,000 rials to the dollar

(<https://www.farsnews.ir/news/14001124000406/%D8%AA%D8%BA%DB%8C%DB%8C%D8%B1%D8%A7%D8%AA-%D9%84%D8%A7%DB%8C%D8%AD%D9%87-%D8%A8%D9%88%D8%AF%D8%AC%D9%87-%D8%AF%D8%B1-%DA%A9%D9%85%DB%8C%D8%B3%DB%8C%D9%88%D9%86-%D8%AA%D9%84%D9%81%DB%8C%D9%82-%D9%82%DB%8C%D9%85%D8%AA-%D9%88-%D9%85%DB%8C%D8%B2%D8%A7%D9%86-%D8%B5%D8%A7%D8%AF%D8%B1%D8%A7%D8%AA-%D9%86%D9%81%D8%AA-%D8%B2%DB%8C%D8%A7%D8%AF-%D8%B4%D8%AF>) and allocations to the NDF and NIOC, the government received about \$6.2 billion—but should have earned much more.

Because of U.S. restrictions, Iran does not receive “sticker price” for the oil it sells. A number of factors slice into its revenue: the regime must sell at a discount to encourage risk-averse buyers, engage in costly clandestine efforts to conceal the oil’s origin, and navigate banking restrictions that limit its access to the resultant revenue. Moreover, the IRGC helps smuggle this oil and siphons off (<https://home.treasury.gov/news/press-releases/jy0362>) some of the sale money to support its activities and fund its foreign militia proxies.

According to various tracking firms, Iranian oil exports during this April-July period averaged 620,000-980,000 bpd (including Iranian exports of condensate, but excluding exports to Venezuela (<https://www.reuters.com/markets/commodities/venezuelas-oil-exports-sept-boosted-by-sales-china-swaps-with-iran-2022-10-04/>) and Syria (<https://home.treasury.gov/news/press-releases/sm553>), since the government may not be paid directly for these sales). When one multiplies these volumes by the average Brent price of \$113 and subtracts the allocations discussed above, the government should have earned between \$8.6 and \$13.5 billion from those sales. In other words, it lost as much as half of its oil revenue to discounts, transaction costs, lack of accessibility, and other impediments.

Policy Options

To widen the gap between the regime’s potential and actual earnings from oil sales, the United States should take steps that force Tehran to adopt even more costly and complex black market strategies—mainly by increasing the risk perceptions of companies, banks, and governments that engage in or permit this trade. Specifically, Washington should:

- Pressure countries to increase their domestic enforcement efforts by pointing out that every barrel sold by Iran funds the regime’s support for Russia’s invasion of Ukraine (<https://www.washingtoninstitute.org/policy-analysis/snapback-sanctions-iran-more-bark-bite>), its domestic repression, and its malign regional activities. In particular, U.S. officials should elevate the importance of this issue in bilateral conversations with China, India, Malaysia, Singapore, and the UAE.
- Escalate the tempo of energy-related sanctions designations to create a climate of uncertainty and anxiety among individuals, companies, and countries involved in shipping or purchasing Iranian energy products.
- Issue updated guidance from the Treasury and State Departments and the Coast Guard regarding the techniques that oil smugglers use to evade maritime sanctions, including details about common locations for ship-to-ship transfers.
- Increase the State Department reward for information on illicit IRGC financial networks, launching a public outreach effort in Persian to raise the program’s profile.

All of these measures could be implemented quickly—though continued uncertainty about the implementation of a price cap on Russian oil may argue for some caution in the coming weeks. As for concerns that increased U.S. pressure could result in a major drop-off in Iranian oil exports and thereby raise global prices even higher, Saudi Arabia likely has sufficient spare capacity to compensate for this risk. Despite their recent turmoil on oil policy, Washington and Riyadh are aligned in their desire to constrain Iran, which should foster cooperation on this issue; the kingdom also has an interest in keeping oil prices from surging past a sustainable level.

Finally, Washington will need to deter the Iranians from retaliating militarily against any substantial increase in U.S. pressure, as they did in summer 2019 (<https://www.washingtoninstitute.org/policy-analysis/will-sense-revenge>

spur-iran-attack-saudi-arabia). Potential deterrent steps include strengthening U.S. defensive deployments in the region as well as intelligence, surveillance, and reconnaissance capabilities. Such efforts could have the added benefit of giving Washington another platform for encouraging the Abraham Accords countries and Saudi Arabia **to cooperate** (<https://www.washingtoninstitute.org/policy-analysis/regional-security-cooperation-partnerships-middle-east>) on information sharing and defending against mutual threats.

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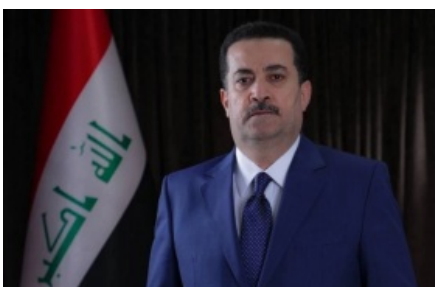
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