

# Mismanagement Makes Iran Vulnerable to a Different Type of U.S. Pressure

by [Patrick Clawson \(/experts/patrick-clawson\)](/experts/patrick-clawson)

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## ABOUT THE AUTHORS



[Patrick Clawson \(/experts/patrick-clawson\)](/experts/patrick-clawson)

Patrick Clawson is the Morningstar Senior Fellow and Research Counselor at The Washington Institute.



Brief Analysis

**The country faces shortages of gasoline, natural gas, and electricity that make it newly susceptible to pressure against its oil product imports, not just its oil exports.**

In a December 2 televised interview, Iranian president Masoud Pezeshkian warned that the country “will potentially face a crisis” if it does not address its growing energy deficit, hinting that the government may not be able to pay pensions unless fuel prices go up. The interview came amid revived conversations abroad about implementing new U.S. restrictions on Iranian oil exports, with many observers noting that this tactic would face tall obstacles and might be largely ignored by the emboldened, sanctions-evading regime. Pezeshkian’s comments suggest another avenue for pressure, however.

After years of misguided policies, Iran is already in the throes of a serious domestic energy crisis complete with rolling blackouts, empty gasoline pumps, and shortages of natural gas, which the vast majority of Iranians use for home heating. Having spent at least \$2 billion to import gasoline last year, the government revealed that it will spend \$4 billion for this purpose during the Iranian year 2024/25; it might spend even more to import heavy fuel for electricity generation. Yet many of the countries that would fulfill these expanding Iranian orders are now looking to cultivate good relations with the incoming Trump administration, giving Washington an opening to identify these exporters and press them to redirect their sales to other needy markets.

## Tehran Encourages Energy Waste

In 2019, Iranian protests against gasoline price increases quickly spiraled into a major showdown, with mass calls for regime change and a crackdown that killed hundreds of people. Seemingly acknowledging the scale of public anger, the regime took steps to stabilize prices at the pump at 30,000 rials per liter—at the time equivalent to 85 cents per gallon and now just 16 cents. The government also offered a monthly ration of 150 liters per vehicle at half

that price (lowered to 60 liters this January). These measures have contributed to soaring demand in recent years, exacerbated by an aging vehicle fleet in which most cars get around 17-21 miles per gallon.

Gas smuggling to neighboring countries has spiraled as well, with an estimated 20% or more of the fuel sold daily in Iran (30 million gallons, or 120 million liters) being taken abroad for lucrative resale—especially in Iraq (where pump prices are fifteen times higher), Turkey (thirty times), and Pakistan (20 times). On October 6, the government imposed limits of 50 liters per refueling, two refuelings per day, and 300 liters per month for each car—a move described as combatting smuggling but widely seen as a response to gas stations repeatedly running out of fuel. On November 10, shortages of the higher-octane gas that is better for car engines spurred the government to authorize private imports of super-grade gasoline at an estimated price of \$5 per gallon (800,000 rials per liter). More broadly, Iranian officials and media across the political spectrum—from Pezeshkian on down—are now questioning the rationale for such low prices, though insisting that no decision has been made to raise them.

Meanwhile, natural gas shortages have been worsening. Iran uses this resource more intensively than nearly every other country in the world—according to the *Statistical Review of World Energy* (<https://www.energyinst.org/statistical-review>), gas made up 70% of its primary energy consumption in 2023, compared to 34% in the United States and 20% in the European Union. More than 90% of homes are now connected to the gas grid for heating and cooking, and domestic prices for this resource are ridiculously cheap, discouraging efforts to improve energy efficiency. Iran has also lagged at creating storage that could be filled in summer and used during exceptionally cold winters like the current one. Consequently, the government expects a shortage of 260 million cubic meters per day this winter even after mandating a rate increase for household use on November 17—no surprise given that daily consumption averaged 670 million cubic meters in 2023. Pezeshkian’s proposed remedy for the shortage bordered on authoritarian satire: “I wear warm clothes at home. Other people can do that too.” (Notably, he grew up in Iran’s Azerbaijan region, where winter temperatures can reach 40 degrees below zero.)

These shortages have undercut Tehran’s bid to expand its influence next door, with the regime halting gas exports to Iraq. Iranian officials claim that the flow was cut off to enable maintenance on their shared pipeline, but the end result is that Iraqis were left scrambling to fuel their power plants.

The problems are affecting Iran’s power grid as well. Accustomed to periodic shutoffs in their natural gas supplies, most of the country’s electricity plants use inefficient dual boilers that can run on either gas or heavy fuel oil (*mazut*). Last month, however, the government barred plants in Arak, Isfahan, and Karaj from using fuel oil, claiming a need to curb urban pollution. Although *mazut* does indeed exacerbate local pollution caused by inefficient vehicle exhaust, rumors have also circulated that Iran is running short of fuel oil after producing less of it than normal this year.

According to Ahmad Moradi, a member of the parliamentary energy committee, the national grid now has a shortfall of 20,000 megawatts due to “insufficient generation capacity, problems at power stations, and aging transmission lines.” A **recently leaked** (<https://t.me/ghyamsarnegouni/4152>) 2023 report from Iran’s National Supreme Energy Council showed that the country’s power plants were able to produce only 75% of their nominal peak capacity. Some older power plants are being decommissioned, but Iran has struggled to add new ones; in the meantime, 20% of the power produced is lost in transmission. Seemingly uneasy about public and foreign perceptions of this deterioration, the Energy Ministry has blocked monthly reports on electricity since June 2023.

Of course, Iran has faced periodic electricity shortages for many years, but they used to occur mainly in winter, when some people turned to super-cheap electric heat when gas supplies proved erratic. Today, electricity is becoming scarce year round, spurring authorities to announce blackouts for two hours per day in major cities. Pezeshkian tried to justify such measures on November 20: “Since our [fuel] reserves are low and we may face problems in the winter, we have to adjust the reserves of power plants now to avoid future problems.” Yet former oil CEO Abbas

Kazemi offered a glaring example of deeper problems in the government's energy policies: "Instead of stockpiling diesel for winter, the Abadan Refinery sold 400 to 500 million liters meant for power plants." Meanwhile, complaints about the blackouts are rife on social media, with many commenters speculating about potential social unrest similar to the previous waves of mass protest that have rocked Iran in recent years.

## Pressure on Oil Product Imports

The regime's mismanagement makes it vulnerable to a form of pressure that the United States used to great effect after 2010: discouraging the sale of oil products to Iran. At the time, overwhelming bipartisan majority votes in Congress forced an unenthusiastic Obama administration to institute this measure under the Comprehensive Iran Sanctions, Accountability, and Divestment Act (CISADA). Specifically, the government was authorized to levy sanctions on companies and governments for "providing goods or services that could directly and significantly contribute to the enhancement of Iran's ability to import refined petroleum products, including insurance or reinsurance services; financing or brokering services; or ships and shipping services."

Tehran responded by producing large amounts of low-quality gasoline that damaged car engines and increased air pollution, to the public's considerable annoyance. Investments in extra refinery capacity even enabled Iran to become a gasoline exporter for several years, but soaring domestic demand eventually outpaced it—the country now consumes at least 120 million liters per day, up from 104 million in 2022 and 91 million in 2021. As a result, Iran is once again dependent on imported oil products, including 15 million liters of gasoline per day. According to Energypress.ir, "In the next ten years, Iran will need to import \$25 billion of gasoline annually, which is equal to half the country's oil export capacity."

Once the Trump administration takes office, it will likely seek new tools to pressure Tehran, and European powers may support (or at least tolerate) this effort given their anger at the regime's ongoing nuclear provocations (e.g., decreasing cooperation with international inspections; ramping up uranium enrichment). Toward that end, the sanctions authority in CISADA could be reapplied to enable action against companies that provide insurance, financing, or shipping services for Iran's importation of gasoline and other refined petroleum products.

Enforcing sanctions on Iran's gasoline imports is more straightforward and less diplomatically fraught than sanctioning its oil exports, most of which go to small refineries in China. This gasoline is produced at foreign refineries that may be reluctant to incur U.S. penalties just for the sake of a relatively small customer like Iran. Moreover, the governments of the countries in question may not be eager not to cross Trump. The most active sources of oil products for Iran are the United Arab Emirates, South Asia, and Southeast Asia. Pressing companies and officials in these jurisdictions could give Washington a particularly effective way to press Tehran.

*Patrick Clawson is the Morningstar Senior Fellow at The Washington Institute and director of its Viterbi Program on Iran and U.S. Policy. ❖*

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