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Lights Out

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Articles & Testimony

By targeting Syria's energy sector, the United States can hit President Bashar al-Assad where it really hurts -- his pocketbook.

Four months into Syria's uprising, the violence wracking the country is bad and getting worse. The restive city of Homs witnessed sectarian clashes over the weekend that reportedly left dozens dead, while forces loyal to Syrian President Bashar al-Assad converged on the eastern town of Abu Kamal. As the Assad regime's iron-fist-in-a-velvet-glove approach to the uprising continues to fail, all eyes are focused on the Aug. 1 start of the Muslim holy month of Ramadan, when the minority Alawite regime's killing of predominately Sunni protesters could transform the uprising into a sectarian bloodbath.

This bloodshed, which is tragic in its own right, is also causing the sputtering Syrian economy to grind to a halt. Such a development would be particularly dangerous for Assad, as it could cause the business elite in the commercial hubs of Damascus and Aleppo to finally break ties with the regime and join ranks with the opposition. Iran, Assad's staunch ally, is no doubt aware of the threat; Tehran is reportedly mulling a $5.8 billion aid package to Syria, as well as providing a daily supply of 290,000 barrels of oil for the next month. Fortunately, cash-strapped Iran does not have the resources to indefinitely bail out Assad if the United States organizes a Western effort to hit Syria in its Achilles' heel -- namely, its energy revenues.

The longer the Assad regime teeters, the more violent and bloody Syria is likely to become. The Syrian people, the United States, and the international community, therefore, share a common interest in having as short a transition as possible. To help end the bloodshed and bring about a quicker demise of the Assad regime, Washington should now be more ruthless with the Assad regime as well.

Syria produces around 390,000 barrels per day (BPD), down from a high of 600,000 BPD in 1996, and about 6 billion cubic meters of gas annually. Of that, Syria exports around 148,000 BPD of heavy and sour "Souedie" crude, with revenues accruing directly to the state; all gas is used domestically. According to the International Monetary Fund and U.S. government estimates, oil sales account for around one-third of state revenue, with the remainder increasingly made up through corporate and public-sector employee taxes.

But the protests have hit the Syrian economy and currency hard, a fact that is expected to substantially decrease tax receipts. Damascus, therefore, is likely to become increasingly reliant on oil revenue. This in turn would constrain the regime's ability to fund the security services and the army (the primary bodies responsible for the brutal crackdown), maintain market subsidies (e.g., for diesel fuel and gasoline), and pay off vital regime patronage networks.

Declining revenue will also force the regime to resort to more deficit spending. It could borrow against the $17 billion in reserves at the Central Bank of Syria, but this would essentially be printing money, causing inflation that would undermine the Syrian pound and confidence in the banking system. The regime could borrow more from state-owned and private-sector banks, where the Damascene and Aleppine business elite put their savings. But as the protests continue to grow and the cost of doing business with the Assad regime dramatically increases, Syrian merchants and businessmen are likely to pull their deposits. Either scenario would undermine the regime's economic lifeline and help spur elite defections -- a key element to developing a new political order.

Beyond the targeted sanctions on Syrian officials already imposed by President Barack Obama's administration, Washington has tools for leveraging Syrian energy and depriving the Assad regime of critical foreign exchange earnings. Here are six ways to up the pressure:

1. Pressure purchasers of Syrian crude: The Obama administration could prod the chief buyers of Syrian oil -- companies in Germany, Italy, France, and the Netherlands -- to stop purchasing the regime's oil. Syrian oil is sold on the spot market and via long-term contracts at a price around $10 less than the Brent crude benchmark. These contracts could be abrogated if the European Union were to slap sanctions on the sale of Syrian oil in Europe. Given Europe's strong stance on human rights and the bloody trajectory of the crackdown thus far, support for this measure is likely to increase.

Some in Europe, however, are reportedly concerned that cutting off oil shipments could constitute a kind of collective punishment akin to U.N. oil sanctions on Saddam Hussein's Iraq. While the comparison is a bit problematic -- the Iraq sanctions stemmed from a U.N. Security Council resolution, which is not yet in the cards for Syria -- it's important to note that oil revenues in Iraq constituted a much higher percentage of foreign exchange and budgetary revenue.' While Syrians still depend on the public sector for employment and subsidies, many if not most Syrians increasingly have taken full- or part-time work in the private sector to make ends meet. In other words, sanctioning Syrian oil would affect the regime's finances far more than its people.

Yes, the Syrian regime could ship its heavy crude to China and India, which have refineries tuned to process Syria's heavy and sour crude. But doing so would increase shipping costs considerably, especially as Syria's oil terminals cannot handle the large tankers that make long-haul shipments much more profitable.

2. Pressure foreign oil companies in Syria to divest: The Obama administration, together with the European Union, could pressure multinational energy companies involved in Syrian energy -- namely, Royal Dutch Shell, Total, Croatia's INA Nafta, and Petro-Canada -- to divest their operations. Most importantly, it should ask Britain to halt the operations of Gulfsands Petroleum, the onetime Houston-based firm that moved to Britain in 2008 to avoid U.S. sanctions on Rami Makhlouf, Assad's cousin and Gulfsands's Syrian business partner.

The advantage of this approach is that it gets Western multinationals and technology, which is most efficient in boosting the flagging production of Syrian Souedie crude and carrying out new exploration, out of the country. But it would take these companies time to divest, and their operations would almost surely be taken over by non-Western companies operating in Syria, including India's Oil and Natural Gas Corp., the China National Petroleum Corp., and

Russia's Tatneft.

3. Interrupt oil-tanker payment mechanisms: The state-owned Commercial Bank of Syria (CBS), Syria's largest bank by far in terms of assets, largely handles Syrian oil sales. Washington sanctioned CBS in 2004 for insufficient anti-money-laundering procedures, forcing the bank to close its correspondent accounts in the United States. Many European banks closed their correspondent accounts with CBS as well to protect themselves against possible U.S. sanctions violations, but a number of other European banks have not. If the Obama administration pressed the European Union to sanction CBS -- or just persuaded individual European banks directly to stop doing business with it -- Washington could effectively close off the way the regime turns oil into cash. Similar measures could target the tanker shipments' finance and insurance mechanisms.

The advantage of this approach is that it could be rolled out relatively fast. The downside is that it could push Syrian payments underground via banks in Dubai and Lebanon. Such transactions would likely be funneled through Syria's new private-sector banks, many of which have formed joint ventures with Lebanon's banking giants.

4. Sanction tankers hauling Syrian oil: In the past, the United States has targeted shipping vessels as part of tightening sanctions on its adversaries, including through the Helms-Burton Act on Cuba, as well as the Comprehensive Iran Sanctions, Accountability, and Divestment Act. Washington, together with the European Union, could issue a decision by which any ship hauling Syrian oil would be banned from any future business in the United States or the European Union. The advantage of this move is that it would leverage these shipping companies' U.S. and EU business against the value of their trade with Syria. It also would increase the regime's cost of shipping oil, which decreases profit margins. This move would make it more difficult for Syrian crude to reach Western and global markets. Shipping lines that don't currently do business with the United States or the European Union could step in to haul the oil, but less competition would likely drive up the regime's shipping costs.

5. Pressure Middle Eastern countries to hold back oil and petrodollar bailouts: Syria often turns to regional allies for crude oil, refined products, or charity when it's in a bind, most notably Iraq, Saudi Arabia, the United Arab Emirates, and Iran. In the years leading up to the U.S. invasion of Iraq, for example, Syria bucked U.N. sanctions on Saddam Hussein's Iraq to the tune of 200,000 BPD, which it received at a heavily discounted price (paid into accounts of Uday and Qusay Hussein with the Commercial Bank of Syria). In the 1990s, Saudi Arabia also invested petrodollars in Syria to help bail out the regime, efforts that in recent years have been taken over by Iran and Qatar.

In the face of the regime's increasingly brutal crackdown, the United States should persuade Baghdad, Riyadh, and Doha to withhold support for Assad. It should also pressure Egypt and Jordan to cut gas supplies through the Arab Gas Pipeline, which terminates in Syria. The advantage of these moves is that it would narrow the regime's bailout options. The downside, of course, is that it could push Assad further into the arms of Tehran, over which Washington has little leverage and with which Syria already has a strong relationship.

6. Target imported refined gasoline and diesel products: Syria became a net importer of oil four years ago -- years ahead of industry estimates. Its two state-owned refineries cannot process Syria's domestic heavy crude into enough diesel fuel and gasoline to satisfy rapidly increasing domestic demand. Thus, diesel is Syria's Achilles' heel: Everything from irrigation pumps to home furnaces to trucks burn diesel, which is heavily subsidized by the state. Meanwhile, Syria's upper and middle classes rely much more on gasoline to fuel their automobiles. Take away these refined fuel imports and the people will get angry.

Yes, targeting either fuel is a blunt instrument and generally considered a "nuclear option." It's a tactic that should only be used at a critical moment, especially in response to a massacre. If used too soon, it could end up targeting the Syrian population as a whole, thus playing into the regime's line of blaming the uprising on a U.S. "foreign interference," which it did two weeks ago in response to Ambassador Robert Ford's overnight visit to Hama and

Secretary of State Hillary Clinton's words about Assad last week.

Thus far, some European allies have expressed "sanctions fatigue" as a result of Washington's earlier effort to impose measures on Iran to change its behavior -- a process that thus far has had mixed results. Over the last few months, the United States and the European Union have sanctioned a number of regime officials and affiliates responsible for the crackdown. Although these measures are useful, they will not go far enough to address the regime's finances as a whole.

To overcome European reticence, the United States could start with pinpointed measures to mitigate the impact of sanctions on the Syrian people, widening their scope in tandem as necessary or as the regime's crackdown unfolds. And it needn't be set in stone: Washington and Brussels should adopt measures that can be easily undone in the event that the Assad regime collapses, allowing a quick reward for a transitional government in Damascus.

Although energy revenues don't play as large a role in the Syrian economy as they did a decade ago, oil is still a determining factor in the politics of the Middle East. No matter what policy Washington and its allies choose, targeting Syrian energy would cut off a vital lifeline for Assad and help spur the transition to a more humane government for the Syrian people.

Andrew Tabler is the Next Generation fellow at the Washington Institute for Near East Policy and author of the forthcoming book **In the Lion's Den: An Eyewitness Account of Washington's Battle with Syria (http://www.chicagoreviewpress.com/catalog/showBook.cfm?ISBN=1569768439)**. ❖

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