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U.S. Ends Sanctions Waivers for Countries Importing Iranian Oil

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April 23, 2019 – On April 22, 2019, the Trump Administration announced that it would not be extending waivers (known as Significant Reduction Exemption waivers, or "SRE waivers") that have allowed certain countries to continue importing Iranian oil without the threat of U.S. sanctions, citing the U.S. goal to reduce Iranian oil exports to "zero across the board." The Trump Administration claimed that global crude oil supply would not suffer as a consequence of ending the waivers, and it referred to discussions with Saudi Arabia and the United Arab Emirates in which the two oil-producing nations assured that United States that they would fill any void left by Iranian exports.

The decision will affect five countries currently using the waivers to import Iranian oil, including U.S. allies Japan, South Korea, and Turkey. Those waivers will expire on May 2, 2019. In his announcement, Secretary Pompeo emphasized that no SRE waivers will extend beyond the May 2, 2019, expiration date, nor will any additional waivers be granted.

Background

On May 8, 2018, President Trump withdrew from the Joint Comprehensive Plan of Action ("JCPOA"), an agreement that removed severe sanctions on Iran in exchange for Iran's agreement to reduce its nuclear capabilities and allow international inspections to ensure compliance. The State Department immediately announced that it would allow sanctions on Iran that had been waived under the JCPOA to become effective again. The first round of these sanctions was re-imposed on August 7, 2018, targeting Iran's aviation and automotive industries, along with its trade in U.S. bank notes and precious metals. (We previously summarized these sanctions here.) The second round of sanctions, re-imposed on November 5, 2018, targeted Iran's oil and energy sectors, shipping and shipbuilding companies, and financial institutions. (We summarized the second round of sanctions here.)

Just before the second round of sanctions went into effect, the Trump Administration explained that it would grant 180-day SRE waivers from the Iran oil sanctions to eight countries – China, India, South Korea, Japan, Italy,

Greece, Taiwan, and Turkey – thus allowing these countries to continue importing Iranian oil while transitioning to new suppliers. To date, Taiwan, Italy, and Greece have reportedly stopped all imports of Iranian oil, but the other five countries will either cease imports or be subject to the threat U.S. secondary sanctions.

Responses and Consequences

Although the goal of the U.S. termination of the SRE waivers is to isolate Iran and cripple its economy, the effects of its decision could extend beyond the countries that directly benefited from SRE waivers. Some of these are discussed below.

United States

Oil prices reached a six-month high on the day of the U.S. announcement that it would not renew SRE waivers, signaling that the U.S. action had not been anticipated by oil traders. If Saudi Arabia, the UAE, and the United States are unable to offset the effect of the sanctions with increased production, as suggested by Sec. Pompeo in his announcement, then oil prices could continue to increase throughout the summer months, costing consumers in the United States and other countries billions of additional dollars.

Oil suppliers face further pressure to meet demand following the U.S. designation of Venezuela's state-owned oil company, Petróleos de Venezuela, S.A. ("PdVSA"), as a "Specially Designated National" on January 28, 2019. This action prohibits U.S. persons from engaging in transaction with PdVSA, greatly hinders the ability of foreign parties to obtain services necessary to purchase oil from PdVSA, and impedes the ability of PdVSA to raise capital. The PdVSA sanctions effectively remove another major oil producer from the worldwide market, which could amplify the price effects of the decision to eliminate SRE waivers.

Saudi Arabia

Although Secretary Pompeo suggested that Saudi Arabia, the United Arab Emirates, and the United States could adequately supply the global crude oil market, Saudi Arabia declined to give specifics about any increases in output, and instead committed "to ensur[ing] a well-balanced and stable oil market."

Even if Saudi Arabia increases its crude oil production, Saudi Arabia's ability to export its oil could be endangered by Iranian retaliation. For example, the Islamic Revolutionary Guard Corps, recently designated by the United States as a foreign terrorist organization, has threatened to close the Strait of Hormuz, a waterway in the Persian Gulf vital to oil shipments from both Saudi Arabia and Iran.

Turkey

Turkey's Foreign Minister Mevlüt Çavuşoğlu made a statement on Twitter that "[t]he US decision to end sanctions waivers on Iran oil imports will not serve regional peace and stability, yet will harm Iranian people. Turkey rejects unilateral sanctions and impositions on how to conduct relations with neighbors." Additionally, in a joint statement with the Foreign Minister of Tajikistan, the Turkish Foreign Minister stated, "The oil prices set by Saudi Arabia and the United Arab Emirates are extremely high, and it is unacceptable for the U.S. to engage in marketing pitch on behalf of its allies as it sets bad precedents. The U.S. decision announced today is against the rules of the WTO."

Turkey will likely be one of the countries hit hardest by the decision to no longer grant SRE waivers. Iran is Turkey's largest energy supplier, and in 2017, Iran provided 44.6% of Turkey's crude oil. Ceasing Iranian imports

could also increase Turkey's dependence on Russia, which is also an essential energy supplier for the country and recently sold Turkey S-400 anti-aircraft missile systems.

China

China, which imports half of Iran's exported oil under its SRE waiver, objected to the Trump Administration's unilateral imposition of sanctions and announced in a statement that it would not follow the sanctions. Even if China ultimately decides to comply with the U.S. sanctions, it could need longer than the May 2, 2019, expiration date to wind-down its business with Iran (for example, to allow for the delivery of oil shipments currently at sea that would not arrive until after May 2).

The U.S. decision to end waivers could also influence ongoing trade negotiations between the United States and China, which aim to draft a trade agreement under which the United States will remove the expansive tariffs it imposed on a wide variety of Chinese goods in 2018. For example, China could use the promise of compliance with U.S. sanctions as a bargaining chip in the negotiations.

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