

# ELIAMEP Briefing Notes

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## Do EU Sanctions Produce Results? The Iran Oil Embargo Case

by Marina Georgopoulou  
Middle Eastern Studies Programme, ELIAMEP, Greece

Following the decision of the Islamic Republic of Iran to intensify its uranium enrichment program, the European Union decided to impose sanctions. Europe's objective was to stop Tehran's proliferation efforts and resume the negotiations process. The roots of this decision go back to 2005. At that time, negotiations for a Trade and Cooperation Agreement between the EU and Iran were put on hold after numerous sanctions imposed by the United Nations Security Council (UNSC). Five years later, on 26 July 2010, the EU adopted a new Decision imposing tougher sanctions against Iran, which did not produce positive results. It was thus not surprising that EU Foreign Ministers decided for an oil embargo as well as on a freeze of Iran's Central Bank assets on 23 January 2012. Their decision came into force in June 2012.

Sanctions have mainly affected Iran's international financial transactions especially since the country's banks have been blacklisted by the EU. Iran, for example, was pulled off the Society for Worldwide Interbank Financial Telecommunications (SWIFT). Business deals between Europe and Iran have become complicated and all financial transactions are prohibited unless authorised in advance under strict conditions, with only some exceptions for humanitarian needs. The country suffers from sharp inflation as the national currency Rial has lost almost 40 per cent of its value since September 2012. In return, the currency problem Iran is facing has limited its ability to sell oil in Europe and to conduct international banking transactions. It has subsequently forced its government to restrict currency trading.

It is still, nonetheless, debatable whether the Iranian oil industry has been seriously affected by the sanctions and the EU embargo. The Islamic Republic detains the 4<sup>th</sup> largest proven oil reserves and the 2<sup>nd</sup> largest natural gas reserves in the world. Taken this, a large part of the world is dependent. Iran's oil exports to Europe constitute 18% of the country's total sales whereas 13-14% of Italy's, Spain's and Greece's demand is met by Iranian oil.

Overall, sanctions do have an impact on Iran's economy and oil production but have arguably been highly successful, especially when it comes to EU sanctions. On the contrary, they have had perverse effects. The announcement of the embargo created transitional price friction in the global market and many adverse consequences on the European economy. Battered by the economic crisis, Europe finds itself in a position of searching for new suppliers to cover its petroleum needs. These suppliers, however, cannot be easily found, taking into account that some countries (including Greece) were receiving very favorable sales terms on the Iranian crude oil, which cannot be easily matched by new offers.

According to the International Energy Agency sanctions have been effective as Iranian exports fell to a record of 860,000 bpd in September 2012. However, the increased oil prices have mitigated Iran's income loss. The Islamic Republic is now looking to other markets to substitute the significant percentage of 18% of European consumption. China and India that currently consume 34% of Iran's total exports have signalled that they will not cut back on Iranian crude and that they will possibly buy quantities which would be destined to the EU. The same applies to Turkey, a

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country that is greatly dependent (51%) on Iranian oil.

It is obvious that sanctions are used as a policy tool for political intervention. But do they have the desired effect? Tehran's continuous proliferation efforts raise questions on whether sanctions practically work. Iran has the will to sit again at the P5+1 negotiation table but at the same time the country insists that it will continue its uranium enrichment program for peaceful reasons. From an Iranian perspective this is a matter of national pride and security in order to obtain a dominant position in the Middle East and the Persian Gulf.

It is early to reach a safe conclusion on whether EU sanctions against Iran work or will work in the future. Oil prices in Europe are still high and signs of a decline in the short term do not exist. From its partm Iran - in spite of its financial crisis - is heading towards the high-consumption emerging markets. It was not predicted that both sides would be encountered with the consequences of the sanctions. Although the banking sanctions have deeply affected the Iranian economy, the oil embargo has given the country the opportunity to turn to new markets in order to equilibrate its tough economic situation. The results will be assessed in the near future.

### Hellenic Foundation for European & Foreign Policy (ELIAMEP)

Vas. Sofias, 10676 Athens, Greece | Tel. +30 210 7257 110 | Fax +30 210 7257 114 | E-mail [eliamep@eliamep.gr](mailto:eliamep@eliamep.gr)

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