

Crippling Iran's Oil Industry

The United States and Europe are putting severe pressure on Iran's oil industry.

Asian buyers of Iranian crude are struggling to find vessels willing to call at ports in the Islamic Republic as shipowners fear losing insurance cover for their tankers because of European and US sanctions aimed at curbing Tehran's nuclear ambitions.

Although the EU ban on the import and transportation of Iranian crude does not directly affect Iran's Asian customers, a provision in the sanctions legislation agreed January 23 is having an impact far beyond European shores. "It shall be prohibited to provide, directly or indirectly, financing or financial assistance, including financial derivatives, as well as insurance and reinsurance, related to the import, purchase, or transport of Iranian crude oil and petroleum products," the legislation says.

The EU ban on the import and transportation of Iranian crude does not come into effect until July 1, which gives companies with existing contracts several months to phase them out and find alternative supplies. (<http://www.platts.com/RSSFeedDetailedNews/RSSFeed/Oil/7207417>)

Regarding the recent legislation proposed by the US Senate Banking Committee regarding Iran, SWIFT fully understands and appreciates the gravity of the situation. We are working with US and EU authorities, as well as discussing with the G10 central banks which oversee SWIFT, to find the right multilateral legal framework which will enable SWIFT to address the issues.

The actions being discussed by the US and EU will provide clarity and legal certainty concerning SWIFT's ability to expedite an effective response. This is a complex situation that needs to take into consideration the implications to the functioning of the global payments system as well as to the continued flow of humanitarian payments to the Iranian people.

SWIFT remains committed to the global battle against terrorist financing, and has a strong history of cooperating with relevant enforcement agencies in the United States and the European Union. (http://www.swift.com/news/company_information/SWIFT_remains_committed)

*The **Society for Worldwide Interbank Financial Telecommunication ("SWIFT")** operates a worldwide [financial messaging network](#) which exchanges messages between [banks](#) and other [financial institutions](#). SWIFT also markets [software](#) and services to financial institutions, much of it for use on the SWIFTNet Network, and [ISO 9362](#) bank identifier codes (BICs) are popularly known as "SWIFT codes".*

The majority of international interbank messages use the SWIFT network. As of September 2010, SWIFT linked more than 9,000 financial institutions in 209 countries and territories, who were exchanging an average of over 15 million messages per day (compared to an average of 2.4 million daily messages in 1995). [\[1\]](#) SWIFT transports financial messages in a highly secure way, but does not hold accounts for its members and does not perform any form of [clearing](#) or [settlement](#).

SWIFT does not facilitate funds transfer, rather, it sends payment orders, which must be settled via correspondent accounts that the institutions have with each other. Each financial institution, to exchange banking transactions, must have a banking relationship by either being a bank or affiliating itself with one (or more) so as to enjoy those particular business features.

SWIFT is a [cooperative society](#) under [Belgian](#) law and it is owned by its member financial institutions.

SWIFT has offices around the world. SWIFT headquarters, designed by [Ricardo Bofill Taller de Arquitectura](#) are located in [La Hulpe](#), Belgium, near [Brussels](#). (http://en.wikipedia.org/wiki/Society_for_Worldwide_Interbank_Financial_Telecommunication)

Please read all of the cited articles for more important information.

Analysis. This may be the straw that breaks Iran's back. It may not matter that some Asian countries will not sign on to our sanctions on Iran. They still don't get any oil if they cannot find tankers to carry it. Even if they do get a few deliveries of Iranian oil they may not be able to transfer the funds to pay for it.

The Saudis say that they have sufficient excess capacity to make up for the loss of Iranian oil. We will see. However, oil prices are rising in anticipation of Iranian retaliation for the shutdown of tanker traffic to their oil ports. Once the Iranians realize that no tankers are inbound, they may well close the Straits of Hormuz and not allow any tankers into the Persian Gulf.

I would expect the People's Republic of China and perhaps Japan to provide government sponsored insurance for tankers going to Iran. We might dissuade Japan from such a course but not the PRC. The PRC has already made it clear that the continued receipt of Iranian oil is a vital national interest. However, we have not attacked Iran. The PRC can still buy Iranian oil. But they are very limited on how to get it to their ports and then how to transfer funds to Iran to pay for the oil.

The hump the PRC must get over is that most of the tanker owners are Americans or Europeans. Their governments will put severe pressure on them to not charter to the PRC. It is doubtful that the PRC can apply enough reverse pressure to overcome charter restrictions.

We must also be careful of the effect this embargo will have on Greece. Greece can ill afford to pay for oil at the current World prices and pay cash. That is why they are buying Iranian oil. Greece may well default in the next few weeks despite, or because of, the Troika efforts to force Greece to reform its political system and financial affairs. A cut of 25% in Greece's oil supply would, in concert with the financial restrictions imposed by the Troika, put Greece into an immediate and severe depression. Perhaps we can prevail upon Libya to sell Greece oil on the same terms as Iran.

Besides the obvious closure of the Straits of Hormuz, Iran is limited in the kinds of pressure it can apply to break the sanctions short of open war. Iran is proving only intermittently successful at attacking Israeli interests worldwide. This latest episode in Bangkok is more like a comedy of errors than a well planned and executed attack. The only effective attack so far has been the one in New Delhi that injured the wife of the Israeli defense attache.

The Gulf Cooperation Council (GCC) governments are already prepared for increased Iranian agitation among their Shiite populations. They will ruthlessly put down any civil disobedience as demonstrated by the Government of Bahrain recently.

Based upon the reports on the Iranian contingent that "escorted" the USS Abraham Lincoln Strike Group into the Persian Gulf, I would expect an increase in harassment of US naval forces and maybe the beginning of harassment of tankers bound for GCC state ports. We must remember that the primary shipping lanes through the Persian Gulf pass through Iranian waters. The Iranians have a pre-announced naval exercise in the Straits of Hormuz scheduled for the end of February. They may well use that exercise as cover to actually block the Straits of Hormuz. We live in times that are becoming more interesting by the day.

