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INSIGHT

Iran's Petroleum Exports to China and U.S. Sanctions

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Many Members in the 118th Congress remain concerned with Iran's ability to raise revenue in international markets. Iran's petroleum exports have reportedly reached new heights in 2024, with most exports destined for China. Techniques used to obscure Iranian petroleum exports complicate efforts to identify Iran's trade patterns and to use sanctions effectively in furtherance of U.S. foreign policy.

Background: U.S. Sanctions

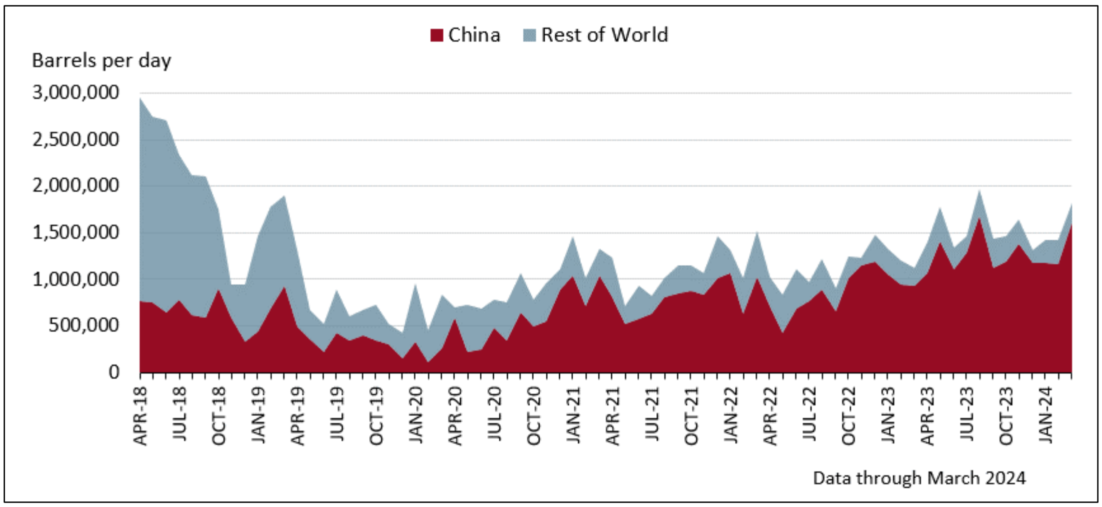
U.S. efforts to limit Iranian income from petroleum and petroleum products (hereinafter petroleum) via sanctions go back decades. Section 1245(d) of the FY2012 National Defense Authorization Act (NDAA, P.L. 112-81; 22 U.S.C. §8513a(d)) directed the President to block from the U.S. financial system foreign financial institutions that knowingly conduct "any significant financial transaction" with sanctioned Iranian banks, including Iran's Central Bank, except for foreign central banks that do not engage in transactions related to Iranian petroleum. The statute also excepts from such secondary sanctions foreign financial institutions in countries determined to be significantly reducing their purchases of Iranian crude oil (President Donald Trump approved the last such exception in 2018). In 2018, President Trump ceased U.S. participation in the Joint Comprehensive Plan of Action (JCPOA) and issued Executive Order 13846, which reinstates those sanctions that had been terminated pursuant to the JCPOA. E.O. 13846 authorizes sanctions targeting persons, including foreign financial institutions, that the Secretary of the Treasury determines to have knowingly engaged in a "significant transaction for the purchase, acquisition, sale, transport, or marketing" of Iranian petroleum or petroleum products. The United States has imposed sanctions on dozens of entities for their role in the illicit shipment of Iranian petroleum to Asia under E.O. 13846. As part of an emergency supplemental appropriations package signed into law by the President in April 2024 (P.L. 118-50), Congress enacted two measures related to sanctions on Iranian petroleum (discussed below).

Iran's Petroleum Exports to the People's Republic of China (PRC)

U.S. secondary sanctions are intended to impose financial or other costs to dissuade foreign persons (third parties) from participating in activities that U.S. persons cannot engage in—all with the intention of denying revenue to the primary malign actor. Iranian petroleum exports reportedly hit a record in the first quarter of 2024, with "almost all" going to China (**Figure 1**). China's increasing imports of Iranian petroleum may demonstrate that PRC-based buyers have concluded that the economic benefits of continuing to buy Iranian petroleum exceed the risks of potential U.S. sanctions for several potential reasons.

Iranian petroleum is often sold below prevailing market prices: Iran has reportedly sold its petroleum at a discount compared to Persian Gulf or price-capped Russian suppliers to entice foreign traders and buyers. Moreover, most reported PRC-based buyers of Iranian petroleum are small, semi-independent refineries known as "teapots." According to one advocacy group, these refineries are "both hard to uncover and not exposed to the U.S. financial system," constraining the effect of U.S. sanctions. Actors involved in the trade reportedly use a range of deceptive techniques, including relabeling Iranian-origin petroleum and broadcasting fake tanker route information ("spoofing").

Figure 1. Reported Iranian Petroleum Exports



Source: United Against Nuclear Iran, data available here.

Notes: "Rest of World" includes some exports to unknown destinations, which may include exports that eventually reach China.

In light of reports of increased Iranian petroleum exports, and the resulting accrual of billions in revenue for the Iranian government in accounts held abroad, some Members of Congress have accused the Biden Administration of "not enforcing petroleum sanctions." All sanctions related to Iranian petroleum remain in place. Some observers have speculated that competing global interests, a desire not to escalate tensions with China, or the pursuit of lower petroleum prices may also inform the Biden Administration's Iran sanctions policy in a way that de-prioritizes the enforcement of sanctions.

Biden Administration officials reject those charges, pointing to the Administration's designation of hundreds of entities for sanctions for their involvement in Iran-related activities, though they concede that Iran "is continuing to export some oil," as Treasury Secretary Janet Yellen said in April, adding, "There may be more that we could do." In February 2024, the Justice Department unsealed three federal cases related to the Iranian petroleum trafficking, including one related to the sale of Iranian petroleum to "government-affiliated buyers in China" and another charging a director of a PRC oil refinery. Later that month, the Department of the Treasury invoked terrorism-related authorities to sanction a Hong Kong-registered shipping company for its role in "having materially assisted, sponsored, or provided financial, material, or technological support for, or goods or services to or in support of" a shipment from Iran to China valued at more than $100 million.

The Biden Administration also forfeited and sold nearly a million barrels of Iranian petroleum from the tanker *Suez Rajan*, in what the Justice Department called “the first-ever criminal resolution involving a company that violated sanctions” related to trade in Iranian petroleum.

The *Suez Rajan* case illustrates the complexities in enforcing U.S. sanctions against shipments of Iranian petroleum. The *Suez Rajan* was owned by a U.S.-based entity, which likely helped enable its seizure. Without a direct connection to U.S. jurisdiction, the United States may face more limited options. U.S. efforts in mid-2022 to confiscate the cargo of a tanker carrying Iranian petroleum that had docked in Greece were blocked by Greek courts. During the Trump Administration, U.S. officials reportedly e-mailed the captains of tankers carrying Iranian petroleum to offer rewards for them to pilot their vessels to countries that would impound them for the United States. The law of the sea limits U.S. jurisdiction to enforce its sanctions laws at sea by interdicting vessels suspected of smuggling. In January 2024, Iranian forces reportedly seized the re-named *Suez Rajan* in retaliation for the U.S. confiscation.

Congressional Action

Some Members of Congress have called on the Biden Administration to enforce sanctions on Iranian petroleum exports to China, including by designating additional PRC-based entities violating sanctions. It is unclear what impact, if any, such designations might have on Iran-China petroleum trade, global petroleum markets generally, or U.S.-China relations. As part of an emergency supplemental appropriations package enacted in April 2024 (P.L. 118-50), Congress included two sanctions measures related to Iran petroleum: the Stop Harboring Iranian Petroleum (SHIP) Act (Division J) directs the President to impose sanctions on foreign persons involved in Iranian petroleum-related activity, including refineries and foreign port owners or operators, and directs the Administrator of the Energy Information Administration to submit annual reports on Iranian petroleum exports; the Iran-China Energy Sanctions Act of 2023 (Division S) amends the FY2012 NDAA to specify that “significant financial transactions” include those by PRC financial institutions involving Iranian petroleum exports and directs the President to determine on an annual basis through 2029 whether any PRC financial institutions have engaged in sanctionable activity.

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