

Tehran recovers less cash from eased sanctions than predicted

By Indira A.R. Lakshmanan
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With world powers unable so far to win [Iran](#)'s agreement to curb its nuclear program, members of both parties in the new Republican-led U.S. Congress will push in January for more economic sanctions on the Islamic Republic.

As the nuclear negotiations continue for an additional seven months, Iran has been promised that it will continue to enjoy limited relief from the existing U.S. sanctions in exchange for continuing to curtail its nuclear efforts under an interim accord signed a year ago yesterday.

That sanctions relief has been less valuable to Iran than U.S. officials anticipated, according to figures declassified by the Obama administration in response to requests from Bloomberg News. They indicate that Iran's direct benefit in cash and non-oil exports in the first six months of this year was about \$2 billion less than the administration predicted -- \$4.6 billion instead of as much as \$7 billion, according to administration officials who agreed to discuss the figures on the condition that they not be identified.

Over the same period, though, Iran earned about \$4.7 billion more from higher combined sales of crude oil and condensates than it had in the previous six months, according to data compiled by Bloomberg from energy and customs information from the five nations that import Iranian oil and the International Energy Agency in Paris. That money is held in restricted bank accounts that Iran can't readily access under U.S. sanctions.

Continued Relief

Iran's lower-than-expected non-oil exports, offset by the higher-than-expected oil and condensate sales, are unlikely to mollify sanctions advocates in Congress and others who say they fear the Islamic Republic is secretly seeking the capability to build a nuclear weapon while obtaining as much sanctions relief as possible by prolonging negotiations.

Under yesterday's extension of negotiations, Iran will continue to get access to \$700 million a month from oil-export revenue held in accounts frozen by U.S. sanctions. The U.S. also will continue to suspend sanctions on Iran's auto and petrochemicals exports, while retaining the congressional sanctions that have severed Iran's access to banking and cut its oil exports in half.

The extension announced yesterday by Iran and six world powers “means that the administration will continue to block sanctions and allow the terror-sponsoring Iranian regime to make \$700 million a month -- roughly \$23 million per day -- even as Iran advances its nuclear bomb-making program,” said Senator Mark Kirk, an Illinois Republican and the co-author of legislation that curtailed Iran’s oil exports and its access to banking.

Iran’s Inflation

Iran says that its nuclear program is solely for energy and medical research. The U.S. and its allies, along with United Nations inspectors, suspect that it has secretly pursued a weapons program.

Even the \$7 billion the administration forecast for the first six months of sanctions relief is a small sum relative to Iran’s \$400 billion economy, which is plagued by soaring inflation, lower oil prices and a depreciating currency.

Critics, from the Israeli government to sanctions advocates in [Washington](#), have disputed that administration estimate, saying sanctions relief in the first half of this year would be valued at \$20 billion or more and open the doors for foreign businesses to return to Iran.

Autos, Petrochemicals

Instead, the relief has been \$4.6 billion, according to the declassified administration figures, \$4.2 billion of it in past oil earnings Iran was allowed to recoup from restricted bank accounts in the first half of this year. The U.S. also agreed to suspend sanctions on Iran’s exports of autos and petrochemicals. Iran earned only \$378 million more from increased auto and petrochemical exports, or 15 percent of the \$2.5 billion the White House predicted it could earn, according to the figures.

“Every business in Iran has been hurt by the sanctions,” Ramin Rabii, managing director of Turquoise Partners, a Tehran-based investment firm, said in an interview. “Even those that were not hit financially, their ease of doing business worsened, trading with the world, sending money back and forth, using financial institutions -- all became next to impossible. Everyone got hurt.”

Oil, Condensate

A report co-written by the Foundation for Defense of Democracies, a pro-sanctions policy group in Washington, and New York-based Roubini Global Economics, a macroeconomic research firm, challenges the administration’s figures, estimating that Iran received \$11 billion in direct benefits during the first six months of this year.

The main reason for the difference is that the bigger estimate includes earnings from additional oil and condensate sales Iran has made under the interim accord.

A little-noticed provision of the year-old deal has let Iran export the same amount of oil it did in the previous six months instead of cutting its crude sales further.

The U.S. oil sanctions that went into effect in July 2012 scared off most of Iran's customers. To avoid U.S. penalties, the five remaining countries buying the oil were forced to show a "significant reduction" in purchases every six months -- which translated into cuts of 10 percent to 15 percent every six months. That meant Iran's oil exports had fallen to about 1 million barrels a day from 2.5 million by the time the interim deal was signed a year ago.

Five Countries

Data compiled by Bloomberg from official energy and customs figures from the five buyers -- [China](#), [India](#), [Japan](#), South Korea and Turkey -- show that Iran exported an average of 1.03 million barrels a day of crude and condensates in the second half of 2013, before sanctions were eased.

That number rose to 1.28 million barrels a day in the first six months of this year after importers were told they didn't need to make further cuts. That meant about \$4.7 billion in additional revenue for Iran in the first half of this year, compared with the second half of 2013, based on average oil prices during those periods.

The money has gone into restricted overseas accounts under U.S. sanctions, and Iran can't repatriate the cash.

Enforcing Sanctions

The Obama administration insists it's vigorously enforced the sanctions and kept crude oil exports steady, and that any increase is due to increased sales of condensates. Condensates, light petroleum liquids often found with oil or natural gas, aren't restricted by U.S. sanctions as long as the buyer nation has a waiver from sanctions to buy crude from Iran.

Sanctions advocates, including Senator Kirk, say the Obama administration's figures obscure the larger picture: The easing of sanctions injected optimism in Iran and among its trading partners and relieved pressure on Iran's economy, allowing for some recovery from its low point.

Newfound confidence that sanctions will be lifted has improved Iran's runaway inflation, halted the free fall of its currency and allowed for some improvement in its GDP, according to separate analyses by the Foundation for Defense of Democracies and Roubini and United Against Nuclear Iran, a New York-based policy group.

"It hasn't been 'limited' sanctions relief," [Mark Dubowitz](#), executive director of the foundation, said in an interview. "An economy that used to be on its back is now an economy on its knees and getting back up to its feet."

'Psychological Effect'

Michel Makinsky, a lecturer on Iranian politics and economy at France Business School in Poitiers, said the interim deal spurred a “slowing of inflation, an improvement in the rial exchange rate,” and “more than anything, there’s been a psychological effect, giving foreign companies the will to look for expansion and investments” with an expectation that sanctions will be fully lifted in the future.

Dubowitz predicts that the indirect benefit will grow in the coming seven-month extension, with the delayed effects of new auto and petrochemical deals encouraging factories to be opened or reopened and spurring job creation.

Obama administration officials say the more positive economic picture in Iran can’t be attributed entirely to the limited sanctions relief. It’s also the result of an end to former President Mahmoud Ahmadinejad’s disastrous economic policies and domestic confidence following the election of President Hassan Rouhani last June, they say.

‘Economic Distress’

“The depths of Iran’s economic distress -- distress that resulted in large measure from the collaborative efforts of Congress, the administration and our international partners -- dwarfed the limited relief” granted under the interim deal, Treasury Undersecretary for Terrorism and Financial Intelligence David Cohen testified to Congress three months ago.

Even taking the improved picture into account, Iran’s economy is 25 percent smaller today than it would have been without sanctions, and it’s still suffering 21 percent inflation and a rial with purchasing power well below its pre-sanctions value, according to Obama administration figures.

The Cato Institute, a Washington-based research center, estimated in a report last week that Iran would benefit enormously from the lifting of all sanctions if a comprehensive deal were reached. Iran’s economy would boom, with a GDP increase of \$125 billion over the next two fiscal years, economist Steve Hanke estimated.

For all the talk of sanctions relief, ordinary citizens in Iran say they’ve seen little benefit in their lives.

“The impact hasn’t been felt that strongly with ordinary people or in day-to-day things,” said Alireza, a 32-year-old math teacher in Tehran who declined to give his last name for fear of reprisals. “There are some things where you can see there’s been a difference, such as the price of medicines and cars. But the price of basic things like bread, food -- these haven’t come down.

“People are scared and worried, worried about what will happen in the future.”