tepav

Economic Policy Research Foundation of Turkey

April2013
N201316

EVALUATION NOTE

Seda Kırdar[1]
Research Associate

US GOLD SANCTIONS ON IRAN AND ITS POSSIBLE CONSEQUENCES

Like 2012, 2013 started as a year in which Iran has been increasing the tension between her and the western world day by day due to its nuclear program. Reviewing the earlier sanctions on Iran, the US saw that the regulations created a wider mobility area for Iran than predicted. Last year a new set of sanctions was issued which bans sale of precious metals to Iran in order to end Iran's procedure of "gold for gas" to get rid of western world's sanctions. Like previous sanctions, this sanctions bill was constituted by Democrat Senator Robert Menendez and his Republican colleague Mark Kirk. The sanctions bill was submitted to the Senate to be annexed to the annual defense bill. On 30 November 2012, the motion was passed by Senate by 94 against 0 votes, and was included in annual defense bill. With the House and Senate both passing the annual defense bill, it was signed by President Obama, and thus, new regulations on Iran which would include gold sanctions came into effect.

[1] http://www.tepav.org.tr/en/ekibimiz/s/1196/Seda+Kirdar

According to the new sanctions which became effective legally on 6 February 2013, a country can only buy gas and oil from Iran by depositing their costs in a bank account from which Iran can withdraw the money in order to buy legal goods or services. In other words, from now on Iran can buy food supplies, medicine, medical equipment and industrial products from countries in return for the oil it exports to them.

Its Effect on Turkey

In terms of its energy needs, Turkey is completely dependent on imports. Total energy bill of Turkey, which imports 98% of its gas and 93% of its oil need, was 60.1 billion dollar in 2012. Turkey receives gas from Iran, Azerbaijan and Russia through pipe lines and Algeria and Niger in the LNG form. Turkey which supplies 16-20% of its gas need from Iran would make the payment in TL through Halkbank. Since it was not able to circulate this money in the international banking system, Iran would buy bars of gold from Turkey and transfer them from the country in several ways. Compared to 2011, Turkey's gold exports in 2012 increased ten times more and reached 12 billion dollars. Turkey's payment due for oil imports from Iran was 60 days, compared to the current standards which are 30 days, and was made in TL, which were to the advantage of Turkey. On the other hand, Turkey's gold export to Iran, which was expelled from the global system, provided financial support to Tehran. As the decision of gold sanctions came into force on the 6th of February, this process came to an end to a certain extent.

Another effect of the new sanctions is the prohibition imposed on Halkbank's acceptance of third countries' energy payments. Prior to February 6, after Indian companies' withdrawal, Halkbank used to accept some of India's payments for the oil it exported from Iran. However, with the new sanctions, Halkbank was restrained from accepting third country payments to Iran. Nevertheless, Iran is still an important supplier to Turkey which reduced its Iranian oil import due to the US pressure from 51% in 2011 to 41% in 2012.

Reactions from Turkey

It would be right to say that the real intention of the sanctions, which were enacted after its annexation to the annual defense bill at the Senate, was to prevent the gold trade between Turkey and Iran. When the sanctions bill was submitted to the Senate to be enacted, Turkey declared at the highest level that Iran is not the only country Turkey exports gold to, that it would not take it into consideration if it would be enacted, and that, it would continue to buy gas in return for gold from its neighbor Iran.

Regarding this issue, Prime Minister Recep Tayyip Erdoğan stated "Since this (Iranian gas) is a strategic commodity for us, we buy it and we have told them that for trade, we will barter whatever we need to. Every country thinks about their own interests at the utmost level. Of course Turkey too will think about its own interests." Upon this, on October 2012 at the joint meeting arranged with the first Deputy Prime Minister of the President of Iran, Muhammed Rıza Rahimi, PM Erdoğan announced that their goal was to increase Turkish-Iranian trade volume of 16.5 billion dollars to 30 billion dollars.

Zafer Caglayan, Minister of Economy, and Taner Yıldız, Ministry of Energy and Natural Sources, also mentioned that Turkey abided by the sanctions imposed by the United Nations, that energy export from Iran was a necessity for Turkey and that, it would not be affected by the additional sanctions of the US. Following this, regarding the oil and gas import from Iran in return for cash, Taner Yıldız said "We are making the payment to the relevant place, and the rest is not our concern. Whatever is given in return for gas is not important; it could be gold, potatoes, or something else." Zafer Caglayan, Minister of Economy, mentioned that the gold export would continue regardless of which country demanded it, and that, Halkbank would continue its current transactions; but he also added that he expected Iran's gold demand would diminish this year.

Possible Outcomes

Turkey is aware of the fact that if the US sanctions are not implemented, there will be serious problems in the finance and banking sectors, and in its economic relations with the US. There are waivers for the companies that significantly reduce their volume of oil purchases from Iran and these companies avoid being black-listed by the US. For this reason, with the decision taken after the previous sanctions, Turkish Petroleum Refineries Corporation (TUPRAS) contacted Saudi Arabia and chose to fill the possible gap through this market.

Sanctions which came into force on February 6 include much more effective and powerful elements than the previous ones. Besides prohibiting sale of precious metals to Iran, they also ban transit trade. With the sanctions coming into force, Iran can buy medicine, food supplies, manufacture goods etc. from Turkey. Contrary to the high level officials' statements; however, conducting gold trade is very difficult. From now on, Halkbank can only accept the payments of Turkey, not of the third countries, for the oil and gas it imports from Iran. Iran will not be able to withdraw the money from the bank, if it does not provide evidence of the goods it is getting in return. Besides, international banks, in order not to take risks, will refrain from making gold transactions with the banks in Turkey. For instance, HSCB, which accepted to pay 1.9 billion dollars fine to the US due to its money laundering with Mexican drug cartels and was convicted because it violated sanctions due to its business with primarily Iranian, and Libyan and Sudanese businessmen, made a statement declaring that it would not make gold-related transactions with the banks in Turkey. For all these reasons, it would not be wrong to say that we will see reduction in gold export in the near future.

Another aspect relates to Iranian companies in Turkey. In 2010, 418 Iranian-capital companies were established in Turkey. In 2011, this number increased by 41% reaching 590. Halkbank's inactivity as a result of the sanctions will raise serious problems in the money transfers of these companies.

The possible outcome of this scenario is that Iran's gold trade, which has drifted apart from the West, and which does not have much chance to continue its presence in Turkey, might shift to China. Chinese banks, which do not display the same transparency even if they are connected to the global system, might create a new mobilization area for Iran.

Time will show to what point the implementation of new sanctions of the US will be disincentive under such obvious course of events. It would be wrong to expect Iran, which threatens to block Hormuz strait if necessary, to give up its nuclear program. However, we can expect to see it place itself into a new mechanism of control, and also shift its area of maneuver to China. We will see in the near future whether parties will focus on diplomacy, or another heated conflict will be added to the geography dominated by the still unrestful Arab Spring.