the review the week

the big idea

Iran's Revolutionary Guard on maneuvers in the Gulf. The paramilitary group's members are key players in sanctions-busting trade in all types of goods, not just those related to Iran's nuclear programme; they are experienced in operating aircraft and ships, setting up front companies and other related activities. AP Photo

Built to spill

Americans like to think of sanctions as a targeted measure, but restricting Iran's oil imports would distort trade in the whole region, argues Will Ward

Iran's Achilles heel, goes the mantra of many Washington hawks, is its dependence on imported petrol – the result of underinvestment in its energy industry during three decades of sanctions. While the country is a net oil exporter, Iran's domestic refining capacity lags, forcing the Islamic Republic to import roughly a third of its daily petrol needs from abroad and ration consumer fuel purchases.

The US Congress is currently considering a bill, the Iran Refined Petroleum Sanctions Act, which would exploit this weakness by penalising companies and individuals that import petrol into Iran or invest in its domestic oil and gas infrastructure. The rosy logic behind the sanctions bill, which currently enjoys majority support in both houses of Congress, is not new: the hope is that ordinary Iranians, squeezed at the petrol pump, will pressure their recalcitrant leaders to halt uranium enrichment, embrace Israel and stop their unpalatable activities in Iraq, Lebanon and elsewhere in the region. That, or Tehran will lash out frantically in response, which will lead to an international consensus for even tougher sanctions – or worse.

Opponents of the bill have already pointed out many of its flaws: for starters, Iran could seek investments from Russia and China to build new refineries. Beyond that logistical loophole, it is also the case that Iranians generally support the country's nuclear programme – and even if they didn't, forcing Iran's increasingly authoritarian government to reverse course would require months, if not years, of struggle and bloodshed. Sanctions against oil-producing nations often starve business and civil society, while the continuing flow of oil profits to the state leaves the targeted regimes more, rather than less, powerful – Saddam Hussein's reign in Iraq being the best example.

But even this litany of concerns about the efficacy of sanctions leaves aside a critical issue: the potentially disruptive consequences for the wider region. America, the world's most prolific user of economic sanctions, conceives of them as narrowly directed measures against the target state – the impact on neighbouring states rarely registers in Washington. But sanctions, particularly on consumer products with mass demand like petrol, tend to produce distortions in regional trade dynamics that can have political repercussions. Powerful incentives are generated to meet demand for the sanctioned products, inside and outside of the targeted state, creating economic imbalances in the region and political tensions with the state that has imposed the sanctions. And in the case of petrol sanctions on Iran these consequences are likely to be acute, given the long and storied history of trade relations across the Gulf.

Consider the following thought experiment. Assume the sanctions act is passed by Congress and signed into law by President Obama. Let's also assume that, contrary to the loopholes outlined above, US pressure on oil companies and other states does indeed manage to double or treble the price Iran pays for its petrol. What are the regional repercussions?

First, Iran would almost certainly begin industrial scale efforts to import (read: smuggle) petrol from wherever it can; with their high subsidies on petrol, which keep consumer prices artificially low, GCC states will be the most likely targets. The effects might be felt most severely in Oman, where petrol is cheaper than bottled water, and in the UAE; both countries maintain patterns of commerce with Iran that date back centuries. Filling the fuel needs of 65 million Iranians – while taking advantage of subsidies intended for domestic consumers – will stretch GCC government coffers, producing a range of political and economic stresses that could force cuts in social spending or energy investment.

This cross-Gulf smuggling trade will start slowly at first – petrol-filled Coca-Cola bottles thrown into a dhow's shipping crate – but it will quickly become sophisticated and institutionalised. In Iran, financial and political gains will accrue to the most efficient smugglers. American statements have long identified the Revolutionary Guard as key players in sanctions-busting trade in all types of goods, not just those related to Iran's nuclear programme. The paramilitary group has experience in operating aircraft and ships, setting up front companies and other related activities – positioning them to move easily into the petrol trade if sanctions are passed. Since much of the smuggled petrol will be coming across the Gulf, the Guards will seek to secure shipping in the waterway and might try to expand networks inside Gulf States themselves.

> **This cross-Gulf smuggling trade will start slowly at first — petrol-filled Coca-Cola bottles thrown into a dhow's shipping crate — but it will quickly become sophisticated and institutionalised**

If the United States is serious about choking off Iranian petrol imports, it will need to coordinate policy extensively with GCC states to stop this informal cross-Gulf petrol trade. This will prove difficult due to the sheer amounts of money involved, and also because of the trade dynamics that sanctions regimes produce. Recent work by the Harvard University researcher Bryan Early demonstrates that friends of the sanctioning state are in fact *more* likely to trade in violation of sanctions because of the security afforded by the alliance; in the case of the GCC and Iran, Washington may be reluctant to put too much pressure on its Arab allies to help enforce the sanctions regime, lest it jeopardise its valuable strategic partnerships in the Gulf. Historically, then, the desire to preserve security ties has trumped imperatives of sanctions enforcement. This dynamic could change, of course, but at the cost of strained relations between America and the Gulf States – as well as an increase in internal GCC tensions over Iran between countries like Qatar and Oman, which remain friendly with the Islamic Republic, and those, like Saudi Arabia, which do not.

New sanctions would also accelerate brain drain and capital flight from Iran. The Iranian Rial is dropping precipitously in the face of falling oil production – a trend that can only continue if Iran's energy sector is starved of investment. This could, of course, benefit the UAE – as a hub for trade, services, capital and talent, the Emirates stand to benefit from many types of regional instability, and if implemented, the proposed sanctions make it likely that more Iranians of means will decide to move themselves and their money to Dubai. But the wider consequences remain unpredictable: an exodus across the Gulf could, in fact, bolster the Iranian regime by removing many of its domestic opponents.

It is not clear exactly how the sanctions would be implemented; the current draft legislation seems to provide for financial penalties for individuals and companies, while some critics have described it as a "blockade," giving the implication of military enforcement. Either way, taking material steps to cut off petrol, the lifeblood of a state's economy, is an act of war. States respond to such acts in fundamentally unpredictable ways, but history tells us that wars tend to escalate, last longer and cost more lives than participants expected at the outset.

Proponents of further sanctions against Iran have sometimes couched their arguments in terms of the security of America's Gulf allies, but the GCC states, home to a considerable American military presence, would also become potential targets for Iranian retaliation. Iranian leaders have in the past made direct threats against Gulf States to this effect, while analysts have often contemplated the possibility that Iran will use mines, or small boats, to cut off trade in the Straits of Hormuz, through which 90 per cent of Gulf oil exports travel.

If the worst of these outcomes does not come to pass, a partially successful effort at cutting off Iran's petrol imports and domestic refining capacity could offer limited gains to some specific parties. Qatar, for example, would benefit from Iran's absence as a competitor in world natural gas markets; the UAE could gain from an exodus of Iranian wealth and talent to Dubai, and regional trading families stand to profit from the lucrative trade in black market petrol. But these isolated benefits would accrue to the few at the expense of heightened geopolitical risk for the many. Iran would very likely seek to secure petrol supplies across the Gulf, which would increase the risk of a miscalculation that triggers a disastrous wider conflict.

At present, the US Congress seems determined to lay down a tough line – hoping to maintain a credible threat of "crippling sanctions" if Iran refuses to cooperate. Yet precious little thought seems to have been given to the feasibility of implementing the sanctions or to the costs that such a programme would impose on America's allies in the Gulf. In the worst case, the petrol sanctions – framed as an attempt to avoid war with Iran – might have precisely the opposite effect.

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the tangled web

Food groups say US is running out of sugar

America's expanding waistlines may soon start shrinking, amid fears that the makers of treats, ranging from Oreo cookies, Krispy Kreme Doughnuts, Hershey bars and Cheerios, may "virtually run out of sugar".

A powerful coalition of leading food companies, including Kraft, Mars, General Mills and Hershey, have warned the Obama administration that "unprecedented shortages" of sugar could lead to increased prices and job losses unless curbs on imports are relaxed.

The threat of a sugar-free America is serious business and follows growing concerns about global supplies. Sugar prices around the world have soared this year, hitting a 28-year high this week.

Sugar production in Brazil, a key producer, has been hit by excess rain – a situation made worse by the fact that the country is diverting parts of its cane crop to making ethanol fuel. In India, the world's second-largest sugar exporter, output has fallen amid an unexpectedly dry monsoon season.

In a letter to Tom Vilsack, the US Secretary of Agriculture, the food manufacturers' note that the Department's own estimates are that the US could end the next fiscal year (in September 2010) with less than 13 days' worth of sugar in hand.

"If this forecast is accurate, we may well virtually run out of sugar," they claim.

The manufacturers blame the shortage, not just on tight supplies, but also on the US's policy on sugar imports, which are subject to restrictive quotas limiting the amount of lower cost sugar companies can bring into the US in a given year.

"You have the authority to increase the sugar import quota. We urge you to do so immediately," the manufacturers said.

The option of putting less sugar in their products was not mentioned in the letter, which is also signed by the Consumer Federation of America and the US Chamber of Commerce.

For the manufacturers such action cannot come too soon. They end their letter to Mr Vilsack with the plea: "Please act now in the interest of all Americans."

Alexandra Frean
The Times (London)
business.timesonline.co.uk

Crackdown on sugar hoarders continues

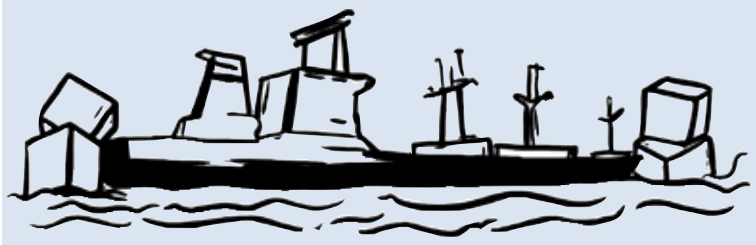
Thousands of sugar bags were recovered from various cities of Punjab on Sunday, as the administration continued its crackdown on sugar hoarders and illegitimate profiteers.

Thus far, the crackdown has resulted in 400,000 bags of sugar being seized from Khanewal, 250,000 bags from Okara, 25,000 from Lahore, 8,892 from Bahawalpur, 10,580 from Muzaffargarh and several thousand sacks from Kasur, Gujrat, Gujranwala, Mandi Bahauddin, Faisalabad and other cities of Punjab, the APP news agency cited a private TV channel as reporting.

Lahore Commissioner Khusro Pervez told a private TV channel that 25 people had been arrested in the crackdown against hoarders. He said owners of sugar mills had started to declare their stock, adding the supply to the markets would increase. He claimed the artificial sugar shortage had been brought under control and the government would ensure the sugar hoarders were punished.

Bahawalpur District Coordination Officer (DCO) Dr Naeem Rauf said the district government had registered cases against eight people found storing sugar bags. He warned hoarders and profiteers to bring their sugar stocks to the market immediately, adding stern action would be taken to anyone found ignoring the orders. In Muzaffargarh, police registered cases against 50 hoarders, arresting six of them. Official sources said police had raided various godowns in the city and seized10,580 illegally stored bags of sugar.

Daily Times (Pakistan)
www.dailytimes.com.pk



Sugar deal: Why Korean ship went off course

It wasn't a mechanical snag that led to North Korean merchant vessel MV Mu San dropping anchor off Little Andaman. It was Union agriculture minister Sharad Pawar's announcement on July 31 allowing private firms to import sugar at zero duty that led the ship, carrying some 16,500 tonnes of the commodity to Iraq, to change its destination mid-course.

While the ship's charter in India eyed gains from offloading duty-free sugar here, the captain stood to earn $7,000 (Rs 3.5 lakh) a day for stalling and diverting the ship.

So, within hours of Pawar's announcement, the ship's charter in India asked the captain to divert the sugar to Kakinada on the Andhra coast, said a source involved in the interrogation of the captain and his 38-member crew. To ensure that the consignment reached only after the zero duty came into effect, the charter asked the ship's captain Yong Jung Sun to ''slow down and take shelter'', evading the Indian Coast Guard and the Navy.

''The minister had made the announcement on July 31, but the gazette notification was expected only around August 5. The captain, however, said he would reach the Indian shores by August 3, however slow he moved,'' the source said. At this point, the charter offered Yong $7,000 for every day that he delayed the consignment, and asked him to drop anchor somewhere off the Andaman and Nicobar Islands.

North Korean merchant vessel MV Mu San dropped anchor off Little Andaman eyeing gains from Union agriculture minister Sharad Pawar's announcement on July 31 allowing private firms to import sugar at zero duty. The ship was carrying some 16,500 tonnes of the commodity to Iraq, while it decided to change its destination mid-course.

''We suspect the ship must have dropped anchor off Hut Bay on August 3,'' the source said. For two days, the shop went unnoticed but on August 5, passengers of a ferry informed Indian authorities of a ''suspicious'' ship off Hut Bay. ''When we cornered the ship, the crew cooked up the story of a mechanical snag,'' the source said.

Economic Times (India)
economictimes.indiatimes.com

Illustrations by Sarah Lazarovic for The National