

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

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The October 2023 attacks on Israel by Hamas, a foreign terrorist organization (FTO) with financial ties to Iran, have increased Congress' concern with Iran's ability to raise revenue in international markets. Iran's petroleum exports reportedly reached new heights in 2023, with most of the increase attributed to trade with China. The evasive techniques used to obscure Iranian petroleum exports complicate efforts to identify Iran's trade patterns, and 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 of the FY2012 National Defense Authorization Act (P.L. 112-81) ([22 U.S.C. § 8513a](#)) directed the [President](#) to block from the U.S. financial system foreign financial institutions that conduct transactions with Iran's Central Bank or other designated Iranian banks whose assets are blocked under the provision, except for foreign central banks that do not engage in transactions related to Iranian petroleum. The statute excepts from these secondary sanctions foreign financial institutions in countries determined to be significantly reducing their purchases of Iranian petroleum (President Trump approved the last such exception in [2018](#)). In 2018, President Trump abrogated U.S. participation in the [Joint Comprehensive Plan of Action \(JCPOA\)](#), and issued [Executive Order 13846](#), to reinstate those sanctions that had been terminated in meeting requirements of the JCPOA. The Secretary of State has authority to designate for sanctions any person determined to have engaged in a transaction related to the "purchase, acquisition, sale, transport, or marketing" of Iranian petroleum. 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.

## *Iran's Petroleum Exports to China*

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. With China's increasing imports of Iranian petroleum, Chinese buyers may have concluded that the economic benefits of continuing to buy Iranian petroleum exceed the risks of potential U.S. sanctions for several reasons.

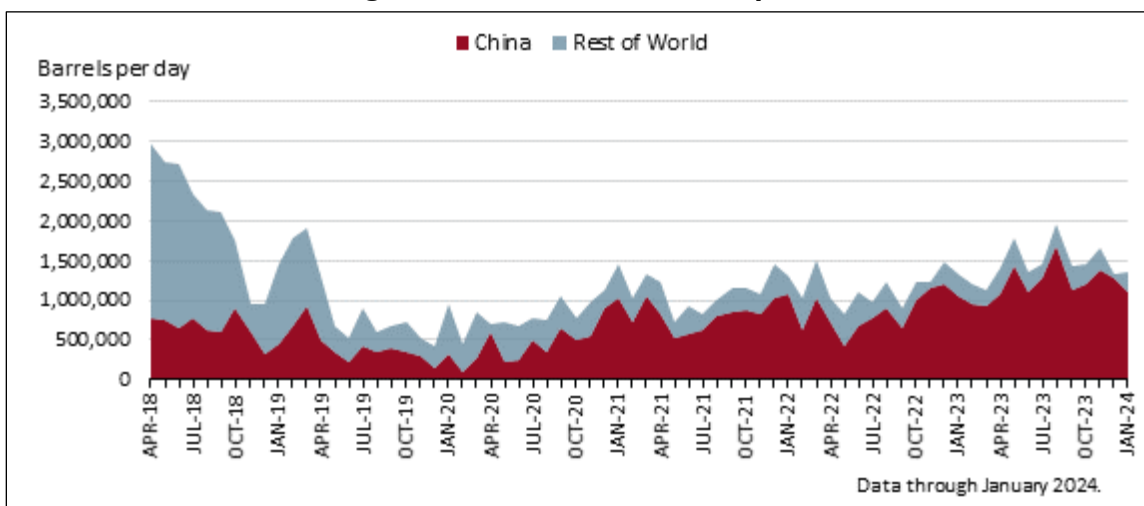
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Iranian petroleum is often sold below prevailing market prices: Iran has [reportedly](#) sold its petroleum at a discount compared to Persian Gulf or price-capped Russian suppliers to [entice](#) foreign traders and buyers (though in January 2024 Iran [reportedly](#) slowed exports to China in a bid to obtain a higher price). Moreover, most reported Chinese 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. Iran [reportedly](#) exported nearly 1.3 million barrels of petroleum a day in 2023, the highest annual level recorded by one industry tracker since 2018. Another source [estimates](#) that nearly all Iranian petroleum exports go to China ([Figure 1](#)).

**Figure 1. Iranian Petroleum Exports**



**Source:** United Against Nuclear Iran, data compiled using multiple sources. Data available [here](#).

**Notes:** “Rest of World” includes some exports to unknown destinations, which may include exports that eventually reached 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. U.S.-Iran diplomatic [engagement](#) in mid-2023 reportedly included, along with de-escalatory steps related to Iran’s nuclear program and other issues, an Iranian [expectation](#) that the United States would [not attempt to seize](#) Iranian petroleum at sea. Some observers have speculated that competing global interests, a desire not to escalate tensions with China, or the pursuit of [lower petroleum prices](#) may have also informed the Biden Administration’s Iran sanctions policy in a way that [de-prioritized the enforcement](#) of sanctions.

Biden Administration officials have [rejected](#) those charges, pointing to the Administration’s designation of hundreds of entities for sanctions for their involvement in Iran-related activities. 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 Chinese oil refinery. Later that month, the Department of the Treasury’s Office of Foreign Assets Control (OFAC) [invoked authorities](#) established in the wake of the September 11, 2001, terrorist attacks to designate for sanctions 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 Chinese entities violating sanctions. It is unclear what impact, if any, such designations might have on Iran-China petroleum trade, global petroleum markets generally, U.S.-China relations, or [other dynamics](#). Hamas’s October attack on Israel has increased [attention](#) to the issue. In November 2023, the House passed H.R. 3774—Stop Harboring Iranian Petroleum (SHIP) Act—which would mandate sanctions on entities involved in Iranian-petroleum related transactions, including refineries, and direct the Administration to submit annual reports on Iranian petroleum exports. Another bill, H.R. 5923—Iran-China Energy Sanctions Act of 2023—seeks to impose sanctions on correspondent accounts of Chinese banks that conduct transactions involving Iranian petroleum.

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