

Exclusive - EU Agrees Embargo On Iranian Crude
Bernamea
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BRUSSELS/TEHRAN, Jan 5 (Reuters) - European governments have agreed in principle to ban imports of Iranian oil, EU diplomats said on Wednesday, dealing a blow to Tehran that crowns new Western sanctions months before an Iranian election.

The prospective embargo by the European Union, along with tough U.S. financial measures signed into law by President Barack Obama on New Year's Eve, form a concerted Western campaign to hold back Iran's nuclear programme.

Iran says the programme is strictly non-military, but Western countries say a November U.N. report shows it has sought to build an atomic bomb. Talks between Tehran and major powers broke down a year ago.

Diplomats said EU envoys held talks on Iran in the last days of December, and that any objections to an oil embargo had been dropped - notably from crisis-hit Greece which gets a third of its oil from Iran, relying on Tehran's lenient financing. Spain and Italy are also big buyers.

"A lot of progress has been made," one EU diplomat said, speaking on condition of anonymity. "The principle of an oil embargo is agreed. It is not being debated any more."

U.S. State Department spokeswoman Victoria Nuland called the EU moves "the kinds of steps that we would like to see not just from our close allies and partners in places like Europe but from countries around the world".

"We do believe that this is consistent with tightening the noose on Iran economically," she said.

A U.S. Treasury official said Tehran's oil revenues could be choked off without disrupting global oil markets.

Treasury Secretary Timothy Geithner will travel to China and Japan next week to discuss U.S. sanctions on Iran and the state of the global economy.

The embargo will force Tehran to find other buyers for oil. EU countries buy about 450,000 barrels per day (bpd) of Iran's 2.6 million bpd in exports, making the bloc collectively the second largest market for Iranian crude after China.

Prime Minister Mario Monti said Italy was ready to back an oil embargo as long as it was imposed gradually and deliveries to repay Tehran's debts to Italian energy firm ENI were exempted.

The news caused a spike rise in oil prices, with Brent crude peaking at nearly \$114 a barrel in intraday trading, up nearly \$2 from Tuesday's close.

Tehran insisted it would have no trouble: "We could very easily replace these customers," said S. M. Qamsari, International Director of the National Iranian Oil Co.

But the new U.S. sanctions have already made it difficult for Iran to keep its customers, and could force it to offer steep discounts to countries willing to risk doing business with it, hurting its revenues.

Biggest trading partner China, driving a hard bargain, has cut its orders of Iranian oil by more than half this month.

REAL IMPACT

Western countries have imposed various sanctions on Iran for years with little impact. But the latest measures are qualitatively different, directly targeting Iran's oil industry, which forms 60 percent of its economy.

Most traders expect Iran will still find buyers for its crude, mostly in Asia, but it is going to have to offer substantial discounts, cutting back the revenue that the state relies on to subsidise basic goods for its citizens.

Tougher sanctions appear to be having an impact already on Iran's streets, where prices for foodstuffs are soaring. The rial currency has lost 40 percent of its value against the dollar over the past month.

Currency exchanges have shut in Tehran and Iranians have queued to withdraw their savings from banks and buy dollars.

That economic hardship is being felt by the public two months before a parliamentary election, Iran's first since a disputed 2009 presidential vote that led to massive street demonstrations, put down violently by Iran's rulers.

Iran's leaders are anxious to prevent any popular unrest, especially after the Arab Spring revolts last year showed the vulnerability of Middle Eastern governments to street protest.

Iran has warned that any steps to cut its oil exports could cause havoc in international oil markets at a time of global economic pain. In recent weeks it has also resorted to increasingly aggressive military sabre-rattling.

Tehran threatened last month to shut the Strait of Hormuz - outlet to the Gulf through which 40 percent of traded oil flows - and on Tuesday threatened to take unspecified action if a U.S. aircraft carrier sails through the strait.

Washington, which has a carrier strike group led by the USS John C Stennis in the Arabian Sea, brushed off that threat and said its navy would continue to sail the strait.

Most analysts dismiss the sabre-rattling as a bluff and say they do not expect war.

"There's an anticipation that it might lead to an escalation of military activity in the region, but we think this is overplayed," said Gareth Lewis-Davies, energy strategist at BNP Paribas in London.

The EU diplomats said member countries had not yet agreed on how soon the embargo should take effect and were still debating other possible sanctions.

France has said it wants the EU embargo and other sanctions agreed at a meeting of the bloc's foreign ministers at the end of this month. Paris also seeks a ban on transactions with the Iranian central bank, similar to what Washington has imposed.

The new U.S. financial sanctions, if imposed fully, would make it all but impossible for many refineries to pay for Iranian crude. The law grants Obama the power to issue temporary waivers to prevent shocks in energy markets.

A Turkish energy official said Ankara, which buys about 30 percent of its oil from Iran, was seeking a waiver from Washington for its biggest refiner, Tupras.

Washington says it is discussing with its allies how to implement the measures without causing an oil supply shock.

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