

RELEASE IN PART B6

**From:** Anne-Marie Slaughter <[REDACTED]>  
**Sent:** Sunday, May 27, 2012 2:56 AM  
**To:** H  
**Cc:** Abedin, Huma; Cheryl Mills; Jacob J Sullivan (SullivanJJ@state.gov)  
**Subject:** Good morning from Florence and [REDACTED]

[REDACTED] But on a soberer subject, I thought you might want to see this report from Reuters re Syrian grain stocks/"spreading food shortages and sharply rising prices." Best, AM

**(Reuters) - Syria is struggling to meet its grain import needs because of sanctions, raising the risk of bread shortages that could sap public support for President Bashar al-Assad as he tries to snuff out a 15-month-old uprising.**

Trade sources said a reluctance among foreign banks, shipowners and grain traders to sell to import-dependent Syria - even though food is not itself subject to sanctions - has forced Damascus into an array of unusually small deals, many arranged by shadowy middlemen around the Middle East and Asia.

On Friday, in what might prove to be a turning point on a path toward a politically corrosive food crisis, government data showed the domestic grain harvest falling well short of target and the state grains agency failing to find a single acceptable offer to fulfill a major import tender it issued last month to buy animal feed for its livestock farmers.

"Syrian purchase interest has fallen off in the last 10 days or so," one trade source familiar with exports to Syria of wheat and other grains for human consumption and animal feed told Reuters. "Banks are becoming tougher in checking compliance with sanctions. It is becoming more difficult to get finance from any banks."

State currency reserves have been depleted and the Syrian pound has lost nearly half its value, adding to import problems.

Data for stocks in Syrian granaries is kept secret but there has so far been little widespread disruption evident in subsidized supplies of bread - a staple of a diet in which every Syrian consumes on average half a kilo (a pound) of wheat a day.

But international aid agencies, which are already helping up to a million Syrians stave off hunger, report patchy but spreading food shortages and sharply rising prices. Grain traders cite anecdotal evidence that stocks, concentrated in the restive countryside, are being run down or looted. That may mean the government needs to import more for the big cities it controls.

With international traders saying financial sanctions have bitten hard into purchases, violence hindering back-door imports via Lebanon and the conflict hampering Syria's domestic harvest in the coming months, analysts see mounting risks for Assad.

"Despite the regime's efforts to conceal the full extent of the deterioration, both from its own citizens and from the outside world, it is beyond a doubt that the Syrian economy is in a state of full collapse thanks to the cumulative effect of the various multilateral and bilateral sanctions," said Peter Pham, a director at Washington think-tank the Atlantic Council.

#### SHORTAGES MAY UNDERMINE LEGITIMACY

Syria relies on imports for about half of its annual needs of 7-8 million tonnes of grain, U.N. data shows. Water shortages, blight and conflict hit last year's harvest.

Traditional secrecy - and the violence that has hit drought-stricken farming areas which were the flashpoint for revolt - makes it hard to calculate how quickly supplies might run short. Not only bakeries are dependent on cereals, but also farmers raising poultry, sheep and meat and dairy cattle.

"A humanitarian disaster would further erode Bashar's claim that the current regime is legitimate," said Anthony Skinner with risk analysts Maplecroft in London. "High inflation and shortages in food supplies will also likely place

the families of underpaid rank-and-file soldiers under increasing duress and may provide them with yet another incentive to jump ship."

Dealers in the grain trade hubs of Hamburg and London said difficulties in finding finance and insurance for shipments to sanctions-hit Syria were stifling offers from major exporters.

Of a 150,000-tonne animal feed tender launched last month, one said: "It appears to have been too difficult to undertake a formal tender in this time of sanctions.

Ukrainian exporters cited sanctions for a sharp fall in their sales to Syria in recent weeks, having sold 620,000 tonnes of corn and wheat to Damascus since October.

The European Union, United States and Arab League have led the campaign that bars financial dealings with Syria. Food imports are not a target but, in a bid to sidestep the measures, hundreds of thousands of tonnes of grain, notably from Ukraine and Russia, have been shipped to ports in Lebanon and Turkey this year for trucking overland into Syria.

One major grains supplier in the Middle East complained that some financiers were over-reacting: "You see some banks exaggerate their reactions," he said. "They hear Syria and they just don't want to deal anymore. Other banks are more flexible."

#### RISE OF THE MIDDLE MEN

Whether by sea or land, critical players in the Syria trade are now contractors with suitable contacts and a willingness to risk their own cash on transactions that flirt with bans on Syrian banks by working between Syrians and foreign exporters.

"The middle men are driving this trade and can make serious money. Syria is making cash payments in euros or dollars through foreign exchange bureaux in places like Lebanon and the middle men will make the transactions from their accounts," one trade source said. "They need to conceal deals."

Private entrepreneurs, many previously unknown to major traders and based in Lebanon, Turkey, India and elsewhere, have been appearing to make purchases on the international market.

One Middle Eastern grain trader said the unusually small vessels arriving at Syrian ports with shipments of grain a fraction the size of a normally commercially viable shipment was an indication that Syria was losing the trust of major operators.

"Syria is in big trouble and can no longer call the shots on terms and conditions," the trader said. "So they will try and take whatever they can even on tiny vessels."

Port and ship tracking data, indicated three ships this week docked at Tartous carrying respectively from Turkey, Ukraine and Egypt: 27,000 tonnes of wheat; 8,000 tonnes of soybean; and a cargo of animal feed of 2,000 tonnes. Typical commercial grains cargoes are around 60,000 tonnes apiece.

Further up the Mediterranean coast at Latakia, Syria's main general cargo port, just a single vessel, carrying less than 10,000 tonnes of Ukrainian wheat from the Black Sea port of Mikolaiv, or Nikolayev, made a delivery in the past two days.

#### HARVEST FORECASTS SLASHED

In better times, Syria has been a net exporter of grain. But intensive, state-sponsored production drives since the 1990s have drained the water table in areas like the Hauran plain, where the uprising began last year in the southern city Deraa among a population hit hard by drought and crop blight.

On Friday, an Agriculture Ministry official gave estimated harvest figures for this year that were a quarter lower than targets cited by the state news agency SANA. A production forecast of 3.7 million tonnes of wheat and 843,000 tonnes of barley compared to targets of 4.6 and 1.6 million respectively.

Independent analysts suggest state statistics may be optimistic. Influential French forecaster Strategie Grains said it had slashed its harvest estimate for Syria's 2012 crop for soft and durum wheat by 900,000 tonnes to 2.5 million tonnes. That compared with a harvest of 3.3 million tonnes in 2011.

"The main producer regions are very much at the centre of the civil war and although it is difficult to evaluate the impact this will have on the harvest, a significant disruption seems certain," the firm said in its latest report last week.

The U.S. Department of Agriculture, a benchmark for global grains traders, estimated last year's wheat harvest at 3.85 million tonnes and barley at 700,000 tonnes. It estimates total annual grains consumption in Syria at 6.9 million tonnes.

U.N. officials have estimated at least a million Syrians need help with food and other essentials but have failed to agree a supply deal because the Syrian government wants to have control of the distribution of the aid.

"Food security of vulnerable populations in Syria is currently fragile," said World Food Programme spokeswoman Abeer Etefa. "Overall poverty levels are also increasing and access to basic supplies and services is deteriorating."

As Saddam Hussein showed in Iraq in the 1990s, authoritarian governments can survive under sanctions despite severe hardships for ordinary people, though the continued violence in Syria, which has cost over 10,000 lives since March 2011, shows that Assad faces a stiffer internal challenge than did Saddam.

Today, in contrast to Syria, its much bigger, oil-rich, ally Iran has managed to sidestep Western sanctions using alternative financing routes to buy grain on international markets lately.

"While Syria's ally Iran has rather creatively sought to evade its own sanctions noose, Damascus has neither the experience nor the resources available to Tehran with which to play a prolonged cat-and-mouse game," the Atlantic Council's Pham said. "The Assad regime's foreign currency reserves are simply depleting at a rate faster than it can replenish them."

(Additional reporting by Maha El Dahan in Abu Dhabi, Valerie Parent and Gus Trompiz in Paris and Joseph Logan in Beirut; Writing by Jonathan Saul and Alastair Macdonald; Editing by Richard Mably)

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