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Subject: Screws tighten on Iran as big buyers shun its oil (Reuters)

TEHRAN (Reuters) - Iran faced the prospect of cutbacks in its oil sales to China and Japan as new measures to block Tehran's crude exports over its nuclear programme appeared to be driving its economy to the wall.

The developments in Asia on Thursday followed news 24 hours earlier that EU leaders had agreed to halt European purchases of Iranian crude.

China, Iran's biggest trade partner, had already cut its purchases of Iranian oil by more than half this month and would extend the cuts to February, a Beijing-based trader who deals with Iranian oil said.

Japan would consider cutbacks in its Iranian oil purchases to secure a waiver from new U.S. sanctions signed into law on New Year's Eve by President Barack Obama, a government source said.

Between them, China, the EU and Japan buy about half of Iran's exports of 2.6 million barrels of oil per day.

International sanctions that for years had little effect are for the first time having a real impact on day-to-day life in Iran, where the rial currency has tumbled and people have rushed to convert savings into dollars.

Most oil traders still expect Iran to find buyers for its crude, but it will have to offer steeper discounts that will cut the hard currency revenue it needs to import food and other basic supplies for its 74 million people.

Iran has put on a brave face. Foreign Minister Ali Akbar Salehi said on Thursday the country would "weather the storm".

"Iran, with divine assistance, has always been ready to counter such hostile actions and we are not concerned at all about the sanctions," he told a news conference.

But in a sign it is seeking to alleviate the pressure, Salehi said Tehran was interested in resuming negotiations over its nuclear programme with Western powers, who delivered an offer for talks via Turkey.

Iran's leaders have responded to the sanctions with military sabre-rattling, including a threat to blockade the Middle East's oil by shutting the Strait of Hormuz that leads to the Gulf, and even challenging a U.S. aircraft carrier if it sails the strait.

EUROPEAN EMBARGO

European diplomats said this week they had agreed in principle to impose an EU oil embargo. The bloc - particularly Italy, Spain and Greece - has collectively bought about 500,000 barrels per day of Iran's oil, making it Iran's second biggest customer after China.

EU leaders have yet to agree when the embargo will take effect, but are expected to announce it at a foreign ministers meeting at the end of this month.

China, the largest buyer, which imported about 550,000 bpd of Iran's oil last year, has cut its purchases by more than half for this month and would now extend that cut to February, according to the Beijing-based trader.

China is seeking deeper discounts for continuing to do business with Iran in spite of Western sanctions.

Still, the West needs to balance its determination to isolate Iran with concerns about the impact on a fragile world economy of measures that might hurt oil supplies.

So far, the U.S. and EU sanctions have caused a steady rise in oil prices this week. Brent crude futures were trading at about \$114 a barrel on Thursday, up by about \$7 a barrel since Obama signed the new sanctions into law.

A Saudi government source said Saudi Arabia - the world's largest oil exporter and a foe of Iran - was ready to fill any supply gaps.

A Japanese government source said Tokyo, which buys about 250,000 bpd from Iran, would discuss with U.S. officials how to deal with the new sanctions law. Among options would be cuts in oil purchases to secure a waiver for its financial institutions.

Turkey, a U.S. ally which buys almost a third of its oil from Iran, has said it would also try to seek a waiver from the Obama administration.

NO TRADE IN THE BAZAAR

In Iran's bazaars, prices for basic foodstuffs and other goods have been rising fast in recent months.

Much of that inflation has been caused by President Mahmoud Ahmadinejad's policy of cutting back on government subsidies for staples that held prices down, a policy that has been praised by the International Monetary Fund.

The government has tried to ease the pain by giving cash payments to families. But the fall in the rial currency has slashed the value of those payments in dollar terms from about \$45 a month to \$27.

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