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Reuters

Iran warns of consequences if Arabs back oil sanctions

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Iran warned Gulf Arab neighbors on Sunday they would suffer consequences if they raised oil output to replace Iranian crude facing an international ban.

In signs of Tehran's deepening isolation over its refusal to halt nuclear activity that could yield atomic bombs, China's premier was in Saudi Arabia probing for greater access to its huge oil and gas reserves and Britain voiced confidence a once hesitant European Union would soon ban oil imports from Iran.

Major importers of Iranian oil were long loath to embargo the lifeblood of Iran's economy because of fears this would send oil prices rocketing at a time - amidst debt and deficit crises and high unemployment - when they could least afford it.

But strong momentum for oil sanctions has been created by a U.N. watchdog report saying Iran appeared to have worked on designing an atom bomb.

A new U.S. law signed by President Barack Obama on New Year's Eve would freeze out of the U.S. financial system any institution dealing with Iran's central bank - which processes its oil revenues.

If fully applied, the law would make it impossible for most countries to buy Iranian oil. Washington is offering waivers to countries to let them keep buying Iranian oil for now, but demanding they gradually cut their imports back.

Leaders from some of the Asian countries that buy the most Iranian oil have begun touring the Middle East to secure alternative supply lines from Arab states. European buyers suggest they will also lean more heavily on Arab oil producers should an EU ban come into effect.

Feeling increasingly encircled, Iran's hardline Islamic clerical elite has lashed back by threatening to block the main Middle East oil shipping route. Since the New Year, Tehran also began to enrich uranium in an underground bunker and sentenced an Iranian-American citizen to death on espionage charges.

Tensions in the Gulf have caused occasional spikes in oil prices in recent weeks. The sanctions are also having a real impact on Iran's domestic economy, causing prices of imported staples to soar and the rival currency to tumble.

Iran holds a parliamentary election in March, its first since a presidential vote in 2009 led to eight months of street protests. Those demonstrations were put down by force, but since then the "Arab Spring" has shown the vulnerability of states in the region to public anger fueled by economic hardship.

IRAN WARNS GULF ARABS

Iranian OPEC Governor Mohammad Ali Khatibi said Tehran would regard as an unfriendly act any move by neighboring Gulf Arab oil exporters to make up for Iranian crude.

"If (they) give the green light to replacing Iran's oil these countries would be the main culprits for whatever happens in the region - including the [Strait of Hormuz](#)," Khatibi told the Sharq daily newspaper, referring to the narrow sea channel through which a third of the world's oil tanker traffic passes.

"Our Arab neighbor countries should not cooperate with these (U.S. and European) adventurers... These measures will not be perceived as friendly," he said.

Saudi Oil Minister Ali al-Naimi said on Saturday the world's No. 1 oil exporter - the only one in OPEC with significant unused capacity - was ready and able to meet any increase in demand. He made no direct reference to sanctions on Iran.

Iran's navy commander Habibollah Sayyari said Tehran could exert control over the Strait of Hormuz. The United States, whose warships patrol the region, says it will not tolerate any attempt to disrupt shipping through the strait.

Military experts say Iran could not challenge the huge U.S.-led fleet that guards the strait for long, but its threats raise the risk of miscalculation that could flare into a clash.

The United States and Israel postponed military exercises scheduled to take place in coming weeks to later in the year. Officials in both countries denied the postponement was connected with the increasing tension over Iran.

Oil prices were down at the end of last week as anticipation of downgrades by Standard & Poor's of several indebted euro zone economies countered the buoyant effect of anxiety about Iranian threats to shipping. But the standoff over Iran pointed to continued support for higher prices, brokers and analysts said.

Iran's foreign ministry said on Sunday it had received a letter from Washington about the Strait of Hormuz and there was no decision yet on whether to reply. A ministry spokesman did not divulge the contents of the letter.

Tehran had said on Saturday it had written to Washington with evidence the CIA was involved in the assassination of a nuclear scientist, blown up by a bomb attached to his car last week, the latest of several such killings.

Western countries suspect Iran is trying to develop nuclear weapons capability. Iran says it is only interested in nuclear technology for peaceful purposes such as generating electricity.

CHINA SEEKS OIL OPTIONS IN GULF

Chinese Premier Wen Jiabao was pressing Saudi Arabia to open its oil and gas wealth to more Chinese investment, Chinese media said on Sunday. China has been Iran's biggest oil buyer.

Although Beijing opposes further international sanctions on Iran, it has already cut its purchases of Iranian oil by more than half for the first two months of this year.

"China and Saudi Arabia are both in important stages of development and there are broad prospects for enhancing cooperation," Wen told Saudi Arabia's Crown Prince Nayef on Saturday, according to Xinhua news agency.

Michal Meidan, an analyst with London's Eurasia Group, said: "Beijing is concerned with the potential response to bellicose Iranian statements and the spike in oil prices that would ensue from greater turmoil in Syria and Iran."

Wen was also scheduled to visit the United Arab Emirates and Qatar, two other big OPEC exporters across the Gulf from Iran.

British Foreign Secretary William Hague said on Sunday he was "confident" the 27-member [European Union](#) would impose resounding sanctions on Iran's oil industry and possibly other sectors at an EU foreign ministers meeting on January 23.

After protracted reluctance to act arising from the dependence of some debt-ridden EU economies on Iranian oil, member states have agreed in principle to ban it and have been working on details of how this will be implemented.

Last year EU countries collectively bought about a fifth of Iranian exports, roughly on par with China.

Any EU-wide prohibition of Iranian oil would probably take effect gradually. "Grace periods" on existing contracts of one to 12 months have been proposed to allow importers to find other suppliers before implementing an embargo.

Hague said: "Our sanctions are part of trying to get Iran to change course and to enter negotiations and we should not be deterred from implementing those. We will continue to intensify our own sanctions and those of the European Union."

IRANIAN DEFIANCE

Some analysts say Iran's leadership, which has thrived on defiance of the West since the 1979 Islamic Revolution, is more likely to dig in rather than back off in response to sanctions aimed at stopping a nuclear program many Iranians regard as a matter of national sovereignty and modernization.

A year after the collapse of the last big power talks with Iran, its deepening nuclear defiance has raised concern of war if harsher sanctions do not change its course.

Israel, reputed to have the Middle East's only nuclear arsenal, sees Iran's nuclear and missile projects as a mortal threat which it will resort to force as a last resort to stop.

The risk of Israel triggering Middle East upheaval with a unilateral strike has the war-weary United States worried.

U.S. Joint Chiefs of Staff Chairman General Martin Dempsey is to make his first visit to Israel on Thursday. Israeli media say he will try to persuade his hosts not to "surprise" Washington on Iran.

Israel's vice prime minister voiced disappointment that the new U.S. legislation gives Obama leeway to allow sanctions waivers to countries to keep buying Iranian crude.

"The (U.S.) Senate passed a resolution, by a majority of 100-to-one, to impose these sanctions, and in the U.S. administration there is hesitation for fear of oil prices rising this year, out of election-year considerations," Moshe Yaalon told Israel Radio.

Obama has said he is determined to deny Tehran the means to develop an atom bomb. His aides cast their sanctions strategy as a bid to work collaboratively with foreign powers and win over states that import Iranian oil without shocking energy markets.