Iran Sanctions Crisis Roils Energy, Shipping

- U.S. exempts 11 states from Iran sanctions; China, India exposed
- India pushes refiners to cut Iran imports, despite sanctions scorn
- Saudi oil sales to US jump; Iran response or just business?
- Catch me if you can - oil sanctions against Iran
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The United States exempted Japan and 10 EU nations from financial sanctions because they have significantly cut purchases of Iranian oil, but left Iran’s top customers China and India exposed to the possibility of such steps.

The decision means banks in these countries have been given a six-month reprieve from the threat of being cut off from the U.S. financial system under new sanctions designed to pressure Iran over its nuclear program.

The list did not include China and India, Iran's top two crude oil importers, nor U.S. allies South Korea and Turkey, which are among the top-10 consumers of Iranian oil.

Japan, China and India combined buy close to half of Iran's crude exports of 2.6 million barrels a day, providing crucial foreign exchange for the OPEC member.

But the U.S. sanctions and an EU oil embargo have cut Iran out of financial networks, making it difficult to transfer funds to pay for trade and disrupting some oil shipments because of the difficulty of securing shipping insurance. Domestic prices in Iran have spiraled higher and the rial has slumped in value.

Japanese Finance Minister Jun Azumi welcomed the U.S. decision, saying on Wednesday that Japan would continue to cut its imports of Iranian oil at a set rate in the future.

"The decision takes account of Japan's steps on Iranian oil, including its future response," he told reporters.

Indeed, the Japan government wants the nation’s crude buyers to cut Iran imports by 10 percent to 20 percent a year, Akihiko Tembo, the chairman of the Petroleum Association of Japan, said.

A U.S. official held up Japan's estimated 15-22 percent cut in oil purchases from Iran in the second half of last year as an example for other nations.

"Japan was a model," Carlos Pascual, State Department Special Envoy and Coordinator for International Energy Affairs, told lawmakers, noting the cuts were made even after the country suffered an earthquake that caused a civil nuclear disaster.
"If Japan was able to do what it did ... that should be an example to others that they could potentially do more."

Still, Pascual declined to set a benchmark that countries could use to secure an exemption. The law says they must "significantly reduce" Iranian oil imports and continue to do so to win exemptions, he said.

Underlining U.S. efforts to tighten the financial noose around Iran, a state department official said 12 other countries may eventually be subject to U.S. sanctions unless they cut Iran crude purchases. He did not list them.

South Korea will hold another round of talks soon with the United States on significantly reducing its imports from Iran, a source at the Korea's economy ministry said on Wednesday.

In contrast to Japan, South Korea, the world's fifth-largest oil importer, increased its imports from Iran in 2011 by 20 percent. It's refiners have signed deals to import a little more crude again from Iran in 2012.

South Africa's energy minister said last week he hoped to have a plan by the end of May for replacing Iran supplies, which currently make up a quarter of its crude imports.

But reflecting a problem for several countries, Turkey's energy minister, Taner Yildiz, told reporters on Wednesday the country could not stop buying Iran crude unless alternative oil sources were found.

The 10 nations from the European Union, which has already decided to stop importing Iranian oil from July, were Belgium, Britain, the Czech Republic, France, Germany, Greece, Italy, the Netherlands, Poland and Spain, the State Department said.

"The actions taken by these countries were not easy," U.S. Secretary of State Hillary Clinton said in a statement. "We commend these countries for their actions and urge other nations that import oil from Iran to follow their example."

While China and India and others remain exposed to possible financial sanctions, U.S. law gives President Barack Obama the ability to waive such steps if this is in the national interest.

China, Iran's top trade partner and crude buyer, has made it clear that it rejects in principle the unilateral U.S. sanctions, while trying to maintain its energy ties with Tehran. It says Washington and the EU should not go beyond UN resolutions on Iran.

Still, China slashed Iranian crude imports by more than half in the first quarter of 2012 as China's largest refiner Sinopec put pressure on Iran's state oil company to protest against tougher contract terms proposed by Tehran.

Those cuts, if averaged out over the full year, amount to a reduction of around 14 percent of the volume China imported on contract in 2011.

India's government says it is not under any obligation to observe U.S. sanctions, but privately has asked its refineries to cut Iran imports by at least 15 percent, industry sources have said.
The United States has tightened sanctions due to Iran’s failure to answer questions about its nuclear program, which Washington and its allies suspect is a cover to develop nuclear weapons. Iran says it is solely to generate power supply.

World oil prices have surged on the growing Iran tensions - including the possibility that Israel will launch an attack on Iranian nuclear facilities - and on worries sanctions will tighten global oil supplies.

OPEC’s biggest producer Saudi Arabia said on Tuesday it was ready to raise its output to 12.5 million barrels per day (bpd), from almost 10 million bpd now, if needed.

The comments from Saudi Arabian Oil Minister Ali al-Naimi, soothed nervous oil markets, although the price impact was partly offset by data showing a fall in U.S. crude inventories.

Mark Dubowitz, an advocate for tougher sanctions on Iran and the head of the Foundation for Defence of Democracies, said Japan’s example was likely to be significant.

“The key number will be what Japan agreed to,” he said. “This will be the number that other countries will have to meet or otherwise make the case to the administration why their energy circumstances demand a lower reduction.”

Cutting Iran crude imports may be easier for Japan than the likes of China and India. Demand for oil from the emerging giants has risen rapidly with their economic expansion, but a sluggish economy and a switch to other energy sources has meant Japan’s demand has been falling.

All 27 EU nations have agreed to an embargo on Iranian crude purchases by banning new imports from Jan. 23 and phasing out existing contracts by July 1.

A U.S. official, who spoke on condition of anonymity, said the 10 EU members granted exemptions were the only members that imported Iranian crude in 2011.

Under the 2012 National Defense Authorization Act, Obama can impose financial sanctions on foreign banks that carry out financial transactions with Iran’s central bank “for the purchase of petroleum or petroleum products from Iran” if several conditions are met.

The penalties include effectively cutting off a foreign bank from the U.S. financial system.

The law allows Obama not to apply sanctions if he determines a country with primary jurisdiction over a bank has "significantly reduced" its volume of crude oil purchases.
India pushes refiners to cut Iran imports, despite sanctions scorn

By Nidhi Verma

NEW DELHI, March 21 (Reuters) - India, publicly disdainful of sanctions to pressure Iran, has been left off a list of nations given a U.S. waiver from the measures, but is privately pushing its refiners for substantial cuts in imports from the Middle Eastern country.

The United States gave exemptions on Tuesday from its crippling financial sanctions to Japan and 10 EU nations it said had cut purchases of Iranian crude, but left Asian economic giants India and China exposed to the risk of such steps.

However, the 15 percent cuts sources say India is privately demanding from state-run refiners could help it qualify for such an exemption. Reuters’ calculations show the overall cuts refiners are planning to make could be deeper at around 20 percent.

“It’s a sensitive matter,” said a government official who declined to be identified because he was not authorised to speak to the media. “You won’t get to know. To keep it secret we are sharing information and minutes of the key meetings over the phone instead of exchanging or sending letters.”

Written communication that was sent has been tightly guarded.

“The letters were being sent like those in the British Raj,” another government official said.

“Properly sealed with melted wax and in double envelopes as this is a very sensitive issue. Marked as ‘To be opened by addressee only.’”

Indian state refiners planning to cut the size of their term deals with Iran have sought additional supplies from the world’s top oil exporter, Saudi Arabia, and fellow OPEC member Iraq.

MRPL, India’s largest Iranian oil buyer, plans to cut its imports by as much as 44 percent to 80,000 barrels per day (bpd) for the fiscal year starting on April 1.

While these moves contrast with India’s public stance that it is free to take oil on offer by Iran, one analyst said the government was lining up with the United States and the EU.

“This government...has arguably been more pro-U.S. than any other government has been,” said Paranjoy Guha Thakurta, a political commentator in New Delhi.

“Despite its public position, the Indian government and its policies are aligned to the U.S. and EU.”
STEPS BEHIND THE SCENES

The behind-the-scenes moves from India, whose symbolic Taj Mahal was built for a Persian princess, have not gone unnoticed by the United States.

"With respect to India, they are making steps that are heading in the right direction," U.S. Secretary of State Hillary Clinton told lawmakers in February.

"In fact, I think in a number of instances, the actions of countries and their banks are better than the public statements that we sometimes hear them making," Clinton said.

The U.S. sanctions target financial transactions with Iran and recent European Union measures also make shipping to and from the Islamic republic difficult as the western powers pressure Tehran over its nuclear ambitions.

Iran, the biggest oil producer in OPEC after Saudi Arabia and the world's fifth-largest oil exporter, says its nuclear programme is purely for peaceful purposes.

India has been dancing around the restrictions as its public stance implies it does not expect a waiver. Shippers are looking for sovereign guarantees for their vessels or for Iran to take on the freighting charges.

The latest twist in India's search for a way to pay for Iran's crude is a semi-barter arrangement using the rupee, which is not freely traded on global markets, for just short of half the imports - worth about $5 billion.

New Delhi hopes to take this opportunity to boost exports to Iran from around $2.7 billion last year, which could be paid for from the refiners' rupees - to be held in an account with UCO Bank, which has virtually no business with the United States.

But a recent trip by exporters to Iran to explore sales with rupee payment appears to have had little success, with deals for sugar and soymeal immediately afterwards sealed in dollars paid through middlemen in Dubai.

India has stayed in close contact with the United States at every turn in the tale, with a move to use Iran's privately-run Bank Parsian instead of Tehran's newly-sanctioned central bank coming hot on the heels of a diplomatic visit.

One of the industry sources said the request to switch banks came around the time that India's foreign secretary visited the United States in February.

"Iran is our immediate neighbour. We can't just go by the whims and fancies of the West," said Zikrur Rahman, a former diplomat and director of Delhi's Jamia Millia Islamia University.

"Can we ignore the lady buried in the Taj Mahal? No."
Saudi Arabia is preparing to extend this year’s unexpected jump in oil sales to the United States, adding to speculation about the response of the world’s top oil exporter to sanctions against Iran and a rally in prices.

The kingdom’s shipments to the United States have quietly risen 25 percent to the highest level since mid-2008, according to preliminary U.S. government data, a sizeable leap that appears at least partly related to the imminent completion of a major expansion at its joint-venture Motiva refinery in Texas.

But some say the scale of the increase, plus other U.S. data showing Gulf Coast inventories are still subdued, suggest the potential for a political dimension as well, evoking comparisons to 2008 when the OPEC kingpin was driving up production to knock oil prices off record highs near $150 a barrel.

The surge appears set to continue. Vela, Saudi Arabia’s state oil tanker company, has booked at least nine very large crude carriers (VLCCs) capable of carrying 2 million barrels of crude each from the Middle East Gulf to the U.S. Gulf since the start of March, the biggest such wave of fixtures in years, analysts say.

The pivot to the U.S. market, which bore the brunt of Saudi output curbs after 2008, is a surprise for two reasons.

For one, many analysts had believed that the kingdom’s modest output increase in recent months was bound for fast-growing Asian markets, particularly given the pressure on refiners there to reduce their imports from Iran.

Plus, it comes after a year in which U.S. crude oil imports shrank to their lowest since 1999 thanks to a dramatic boom in shale oil production and tepid demand from consumers who are making every effort to cut back as gasoline prices rise.

The White House has been scrambling for options to bring down gasoline prices -- at a seasonal record high -- during an election year, after concerns over an Iranian supply disruption launched benchmark Brent crude to lofty peaks over $120 a barrel not seen since the record price run of 2008.

Washington has urged ally Saudi Arabia to cover potential shortages when new U.S. and European Union sanctions are expected to reduce Iranian oil exports from July. The Obama administration has considered releasing strategic oil inventories, potentially as part of a bilateral deal with Britain.

The kingdom has stepped up efforts this week to assure edgy markets that it will make up for any oil supply disruptions at a time when Iran’s standoff with the West has begun to intensify.

"Beyond the expansion at Motiva, there has been a major public shift by the Saudis since the Iran tensions started to raise the price of oil," said Amy Jaffe, an energy policy expert at Rice University’s Baker Institute in Houston.

"Saudi Arabia and the United States are trying to show the Iranians they (the Iranians) will have little flexibility, and they shouldn't count on the world needing all the oil that Iran produces." Saudi output in February was up 450,000 barrels per day (bpd) from October at its highest since August.

Graphic on Saudi Arabia oil prices: http://link.reuters.com/num27s
Graphic on Saudi oil sales to US: http://r.reuters.com/bym27s

RISE IS SURPRISE

The build appears related, at least in part, to a massive expansion project at Saudi Arabia’s 285,000-bpd Motiva Port Arthur, Texas joint-venture refinery with Shell Oil, the U.S. unit of Royal Dutch Shell.

All expansion units are expected to be in production by the end of the second quarter of this year, with the expanded refinery reaching, by the end of the year, a maximum capacity of 660,000 bpd. Motiva Enterprises began circulating feedstocks through some of the expansion units in January.

Motiva declined to comment. The expansion project, budgeted at $5 billion, began in 2007, and when complete will make the refinery the largest in the United States.

"I suspect there is some seasonality to it, U.S. refiners build inventories in the first quarter and U.S. refiners start up Gulf Coast plants out of maintenance," said Jan Stuart, head of energy research at Credit Suisse in New York City.

"In addition, this year you have the Motiva expansion, which will buy a lot of crude," he said, adding the building up of 20 days worth of inventory could account for part of the increased Saudi shipments.

That would be equivalent to building up inventories of 7.5 million barrels, by a Reuters calculation, implying a need to build 100,000 bpd of stock over the first 10 weeks of the year.

INVENTORY BUILD

Still, crude inventories in the Gulf Coast region have not grown as much as they traditionally do during the first quarter when refiners build up stocks.
Gulf Coast stocks have risen by only 10.3 million barrels -- or roughly 140,000 bpd -- over the 10 week period, compared with 14.2 million barrels on average for the past five years, according to EIA data. The weekly data is preliminary, and more comprehensive monthly data for January is not yet available.

While the rise in Saudi output has been well charted, the fact that the lion's share of it appears destined for U.S. refiners will come as a surprise to many. Overall U.S. demand for foreign crude has ebbed this year as a boom in domestic and Canadian production reduces the need for imports.

The reversal of the key Seaway pipeline -- which will begin running from Oklahoma to Texas by July -- was expected further to temper demand for imports by helping bring more cheap crude from the Midwest to the U.S. Gulf Coast refining hub.

"We were all expecting to see U.S. imports fall for Vela, so it's a jump at a time when we are preparing for a reversal given the Seaway pipeline," one shipping source said. "It raises the question why would they need more imports?"

Omar Nokta, managing director with investment bank Dahlman Rose & Co, said in a note on Friday that it was the first time in "several years" for Vela to book so many tankers in such a short time.

RISE BEGAN IN JANUARY

Provisional weekly data from the U.S. Energy Information Administration shows that the rise in supplies began several months ago, and outpaced gains to other consumers such as China.

U.S. imports of Saudi oil hit 1.5 million bpd in the first 10 weeks of 2012, up 300,000 bpd from the fourth quarter of 2011 and marking the largest rise in shipments since the second quarter of 2003. Saudi shipments to China in January rose only 14 percent from the year before.

Total U.S. crude imports are up only 165,000 bpd in the first 10 weeks of the year versus the fourth quarter. The EIA was not immediately able to respond to requests for an explanation of the data.

The shift also could simply be the result of restoring supplies to U.S. customers whose shipments had been cut much more deeply after prices crashed four years ago.

"Up to 2008, there was definitely a much larger rise in shipments to Asia, that's where the demand was growing. The cuts that followed that were not proportionate," said a senior executive at a major Saudi oil customer.

"Now there's a degree of rebalancing."
IRAN SANCTIONS CRISIS ROILS ENERGY, SHIPPING

By Peg Mackey

LONDON, March 6 (Reuters)

International sanctions have a patchy history, and Iran's oil elite have been dodging them for decades.

As Washington and its allies tighten the screws on Tehran over its nuclear programme, Iran is coming up with new ways to sell its oil - offering special deals to allies China and India, delivering oil to clients and swapping it for gold and grain.

Tehran may also be devising ways to make its oil more saleable on international markets, switching it between tankers and blending crudes to disguise the origin, oil trading and shipping sources have told Reuters. They spoke on condition of anonymity because of the sensitivity to business relationships.

Washington, London and Brussels are doing their best to put up obstacles, but Iran is market savvy, these traders said, describing a number of ways Iran can avoid sanctions and continue to get its oil to market.

Such routes mean selling oil at a discount - which will hurt Tehran's income but could also prove highly profitable for customers and the middlemen involved.

"The Iranians are very enterprising and can probably out-smart all of us," said an executive at a major oil company.

Tehran has been manoeuvering for years.

Iran's senior oil executives were reworking the oil books back in 1995, when Washington banned 600,000 barrels per day (bpd) of Iranian crude liftings in an attempt to curb Tehran's drive to acquire nuclear weapons.

"It took us about three months to re-direct all the oil we were selling to U.S. customers," recalled an Iranian oil source. "But we eventually found new buyers elsewhere."

Oil was then around $18 a barrel. It is now above $120.

Seventeen years on, Iran's oil elite - their every move under scrutiny from the West - face a far tougher test as they aim to keep up shipments of 2.3 million bpd. They are scrambling to find new homes for 500,000 bpd of oil sales as rigorous U.S. financial measures and a European Union oil ban, effective July 1, make it ever more difficult to pay for and ship oil from Iran.

BLOW DEALT

But Leonid Fedun, a key shareholder in Russia's Lukoil which halted work in Iran 10 years ago because of U.S. sanctions, said it was hard to envision measures that would keep Iranian oil from reaching markets.

"It is difficult to achieve something with sanctions if you have a system of different oil buyers. For example, if China doesn't join sanctions, they won't work," he said. Keeping Iran's vast supplies off the market would cause supply problems, which would be difficult in a U.S. presidential election year when energy prices are an issue, he added.

Washington dealt a blow to Tehran's financial network when it shut down a major channel for oil sales, the Dubai-based Noor Islamic Bank, at the end of last year. But traders say there are still small European and Russian banks with no U.S. exposure that are willing to handle payments.

For its part, Tehran has switched into other currencies such as yen and rupees, and carried out barter deals to swap oil or gold directly for food imports, as U.S. pressure makes dollar and euro transfers harder.

Such unconventional deals are already in evidence in Iran's grains trade with the likes of Russia and India. Fearing sanctions will cause food shortages, Iran is ordering huge amounts of wheat to feed its population of 77 million.

"Russian banks seem to be ready to finance some of the deals and some payments could be made in roubles or even in the Indonesian currency," a trader said. Tehran may also offer to pay in steel or crude oil.
While the West's sanctions net is closing in on countries within its own sphere of influence, it is causing few problems for top buyer China, which can self-finance, ship and insure oil supplies from Iran which are being sold on extended credit.

An executive from a major oil company told Reuters: "We are hearing the Iranians have started offering a discount as big as $20 per barrel. Do you really believe China will be able to resist?"

It is widely assumed Tehran will discount and sell much of the oil that is displaced from Europe to Beijing. But Iranian oil officials admit the market in China, though strategic, is finite and there is as yet scant evidence of extra oil flowing into the country's stockpiles.

China has meanwhile helped Iran dodge tightening sanctions by selling it much-needed gasoline. Although a major oil producer, Iran's aging refineries struggle to produce enough fuel and imports are vital to fill the shortfall.

"NO RISK"

Iran is also bending over backwards to sell more oil into India, its second biggest client, on flexible commercial terms. "Iran is saying: 'We will deliver our crude for you on our ships on extended credit. There is no risk','" said a market source with knowledge of Iran's sales tactics.

Three of Iran's supertankers - the Hormoz, the Harsin and the Damavand - have already delivered crude to India's west coast refiners, say market sources with knowledge of the ships' movements, as Indian buyers struggle to find tankers willing to dock in Iran for fear they might lose EU-linked insurance cover.

The tankers, owned by Iran's privately-held NITC, have insurance cover from Kish Protection & Indemnity Club - another privately owned Iranian outfit. India has said it will abide by UN sanctions on Iran, but has refused to go along with the new financial measures imposed by the United States and the EU.

Even so, the sanctions have left Indian companies struggling to pay for their Iranian crude. They had been paying in euros via Turkey's Halkbank, but that route looks vulnerable to new sanctions. Halkbank's general manager Suleyman Aslan said on Jan. 26 Halkbank would continue to handle customers' oil payments to Iran as long as they comply with international regulations.

As an alternative, New Delhi and Tehran have set up a payment method using the rupee, which is not freely traded on international markets, to pay for 45 percent of oil imports. India owes Tehran about $11 billion a year for imports.

Iran has already started paying Indian exporters in rupees, but refiners are waiting to hear whether they will have to pay hefty taxes before using rupees to pay for oil.

Payments to Indian exporters, owed about $3 billion, are being remitted through Iran's Bank Parsian which has opened an account with India's UCO bank, said M. Rafeeqe Ahmed, president of the Federation of Indian Export Organisations. Bank Parsian is among private Iranian banks that are free from sanctions against Iran's state-owned banks.

BARTER

In its search for new outlets, Tehran is also courting smaller Asian countries that may have been neglected. For example, Iran is offering to supply Pakistan with 80,000 bpd on a three-month deferred payment plan.

The offer came just after Pakistani officials revealed Iran had asked to import a million tonnes of wheat in a barter deal.

Iran has also held talks with South Africa about the possibility of salting barrels away in storage tanks at Saldanha Bay, say industry sources with knowledge of the talks.

Tehran first proposed storing excess fuel in the facility on the west coast, north of Cape Town, in 1995, but talks broke down.

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While it works to secure new supply routes, traders say Iran is steaming vessels laden with crude and condensates into Asia, where they can drain the contents into smaller ships and sell the cargoes into China and parts of Southeast Asia.

Another of Iran's supertankers, the Delvar, was involved in such an operation last week. The ship was first parked off Indonesia's Karimun island, an offshore storage point near Singapore that is often used for ship-to-ship transfers.

A smaller, China-bound tanker, Xuan Wu Hu, pulled up beside the Delvar and loaded a cargo of condensate for Huizhou, where China National Offshore Oil Corp (CNOOC) and Royal Dutch Shell operate a petrochemical complex.

The Delvar then moved to Bukom island, home to Shell's Singapore refinery, where it offloaded crude oil, traders said.

Blending Iranian crude and re-labeling the barrels is another option and one which could present an opportunity for trading houses, say industry sources.

Possibilities for such operations exist all over the world, from the transshipment hub of Fujairah in the United Arab Emirates, to the Indonesian archipelago, South Africa and even in parts of South America.

"Oil traders can buy Iranian crude, rebrand it and sell to someone else," said an Iranian oil industry source. "They like these sanctions."
Iran oil bosses calm over sanctions, trust in Asia

By Dmitry Zhdannikov and Humeyra Pamuk

KUWAIT, March 14 (Reuters) -

Iranian oil officials show no signs of alarm as oil markets fret about a loss of supply from their country due to international sanctions, saying their Asian customers remain loyal and there is no easy and quick substitute for their crude.

They say the West is unrealistic to hope that Saudi Arabia - the only country in the world that can quickly boost supplies - will help replace the lion’s share of Iranian barrels. They also judge that Western politicians, heading for re-election this year, lack the courage to face a further rally in oil prices.

"Don't you think we haven't made our calculations? All the Saudis can probably do is to push output just a bit higher," an Iranian oil official said on the sidelines of the International Energy Forum, the biggest gathering of oil producing and consuming nations.

The comment, even if it is just an opinion and part of Tehran’s attempts to pour scorn on Western sanctions, goes to the heart of the main concern in the oil markets: will Saudi Arabia be able to fill the supply gap if the stand-off over Tehran’s nuclear programme escalates?

Oil prices have rallied to above $128 per barrel this year, just $20 short of an all-time high, on worries over Iran and even before sanctions, which will come into force from July, have started reducing Iranian exports.

The rally could stall global economic recovery and has become a major headache for politicians around the world, including U.S. President Barack Obama, seeking re-election this year and facing public anger over high gasoline prices.

A European Union embargo on Iranian crude takes effect on July 1. U.S. and European financial sanctions have made it more difficult for other importing nations to process payments.

Iran produces almost 3.5 million barrels per day and exports around 2.2 million bpd to world markets, or around 2.5 percent of global demand.

Saudi Arabia, the top oil exporter, has said it stands ready to fill any oil supply gap. But with its output already running close to record highs of about 10 million bpd, the industry questions whether it can increase production to its declared capacity of 12.5 million bpd.
U.S. deputy energy secretary Daniel Poneman and Maria van der Hoeven, who heads the energy adviser to industrialised nations, the International Energy Agency, both said global spare capacity was tight.

Veterans from the Organization of the Petroleum Exporting Countries (OPEC) also see spare capacity as being limited now.

"If at the moment spare capacity is a little bit on the low side, I think in a year or two you will see it back above average," Shihab Eldin, OPEC's former head of research, said.

GETTING CREATIVE

While the Iranian stand-off was barely mentioned in panel discussions at the International Energy Forum in Kuwait, Tehran's oil minister, Rostam Qasemi, packed his agenda with meetings with the Turkish, Indian, Venezuelan, Algerian, Omani and South African delegations.

"You know that the world cannot live without Iranian crude," Qasemi said, adding that Iranian oil exports remain unchanged from 2011 even after major companies Total and Royal Dutch Shell stopped buying crude as other customers stepped in.

The European Union will have to abandon purchases of some 600,000 bpd of Iranian oil from July and market insiders have speculated Iran will try to reroute those volumes to its main customers in Asia and Turkey.

China, India, South Korea and Japan and Turkey face increased U.S. pressure to cut purchases, to win waivers from Washington to keep buying smaller volumes.

The pressure is meeting resistance.

"We are the border country and we are getting almost half of our supplies from Iran," said Turkey's Energy Minister Taner Yildiz. "So we have a different status from other countries, such as Britain or France, whose Iranian crude purchases only make up one or two percent of their total".

"As of today, we're continuing to buy from Iran and we will continue to buy from Iran," he said.

Indian officials outlined a similar stance.

"We haven't reduced much. Some refiners are buying a couple of cargoes less but Iranian crude is cheap. It is difficult to replace that...since there are no UN sanctions on Iran, we don't plan to cut," said Sudhir Bhargava, secretary at the petroleum ministry.

Western oil executives also predicted Iranian oil would be leaking out of the country regardless of sanctions.

"There will always be outlets for Iranian crude," said Total's chief executive, Christophe de Margerie, whose company had to suspend imports of 200,000 bpd of Iranian oil in the past months because of sanctions.

The energy minister of Lebanon, Gebran Bassil, said the sanctions will make Iran more innovative in selling oil.

"The Iranian are now opening the markets towards Asia," he said. "They will manage to adapt in the medium-term and in the long-term they will get more creative".

Iran struggles to buy SE Asian palm oil as sanctions bite

By Niluksi Koswanage

KUALA LUMPUR, March 15 (Reuters) -

Iran has not managed to buy palm oil from Southeast Asia despite paying for some backdated orders with other currencies apart from the U.S. dollar as Western sanctions bite, traders said.

Palm oil, used for cooking, has grown increasingly difficult for Iran to secure as the United States and Europe impose tough financial sanctions to stop its nuclear weapons programme.

Middle East and Southeast Asian traders said Iranians have been offering $20 to $30 per tonne more for palm oil from top producers Indonesia and Malaysia, but no deals have been signed in the past month though food is not included under sanctions.

In early January, Southeast Asian traders told Reuters that Indonesia and Malaysia had stopped exporting directly to Iran over payment problems since late last year.

"Nothing new has been signed. There were some Iranians at a palm oil conference in Kuala Lumpur last week looking to make deals but nothing came out of that," said an official with a Saudi food company with an edible oil refinery in Iran.

"It is difficult for us to run our own refinery. Freight costs are high and many of the companies in Iran are still waiting for a backlog of shipments to come through. These are deals made much earlier but the payment issues block this."

EUROS OR YEN

In February, cargo surveyor Socite Generale de Surveillance (SGS) reported that 27,100 tonnes of refined palm oil were exported to Iran, which traders said was clearing off a backlog of orders made last year.

But in the first 10 days of March, no other Malaysian shipments to Iran were reported, data from SGS showed.
"There are no more direct deals with Iran. Some parties have been paid, mostly in the form of euros or yen," said a trader with a Malaysian palm oil firm that used to deal with Iran.

"I don't think they will use the euro route since it is still hard to process payment and banks are getting very wary."

Iran has yet to execute barter trades with Indonesia and Malaysia as seen with India, which is keen to step up exports to the Islamic Republic in a range of goods to settle part of its oil dues to Tehran.

The lack of barter trades in the palm oil sector suggests that there are still some edible oil stocks in Iran, said a Dubai-based trader dealing with the country. "From what the Iranians have told me, there is at least one month's worth of edible oil stocks in the country but it's being used on a hand to mouth basis. It will last for a bit but not for long," he said.

Traders in Malaysia said that Iran was considering importing palm oil via India, which is the world's biggest importer of the vegetable oil and using a rupee payment scheme. Yet, edible oil exporters in India say they have not heard of such deals as New Delhi will tax re-exported cargoes of palm oil, lifting costs.

"Of course no one will really talk about such deals. One way around it is to discharge the palm oil at sea into another ship heading for the Middle East," said B.V Mehta, executive director of the Mumbai-based Solvent Extractors' Association of India. "But nothing is confirmed, no one really knows."

**Iran in talks to buy Russian, Indian wheat**

By Michael Hogan

HAMBURG, March 5 (Reuters)

Iran's state grains agency the Government Trading Corporation of Iran (GTC) is in talks about buying several hundred thousand tonnes of Russian and Indian wheat, European traders said on Monday.

"I think we could see some large new deals agreed this week," one trader said. "It is hard to assess the quantities but hundreds of thousands of tonnes could be involved."

On March 1 the U.S. Agriculture Department revealed that Iran had made a rare purchase of 120,000 tonnes of U.S. wheat in an effort to build food stockpiles as the United States and Europe implement tough new sanctions to contain Tehran's disputed nuclear programme.

In the last month, Iran has bought or tried to buy nearly 3 million tonnes of wheat on fears the sanctions will disrupt imports and cause bread shortages.

Iran has asked to import a million tonnes of wheat from Pakistan in a barter deal and also approached India.

Iran has also bought nearly 2 million tonnes of wheat in February from Russia, Germany, Canada, Brazil and Australia.

"Russian banks seem to be ready to finance some of the deals and some payments could be made in roubles or even in the Indonesian currency," another trader said. "Some talks involve payment for wheat with steel, there is also talk about crude oil being bartered."

Traders said that wheat from Kazakhstan could also be purchased, although the main focus appeared to be on Russia and India this week.

Several European traders also said they believed Iran may have bought more U.S. wheat than the 120,000 tonnes announced on March 1, but details were unclear.

"I think we are going to see announcements that more U.S. hard red winter has been sold but this appears to have already traded," another dealer said.
A rush to replace Iranian crude with oil from other suppliers due to sanctions against Iran could breathe some life back into a limp very large crude carrier (VLCC) market this year, the head of a Dubai-based tanker owner said on Monday.

"If you look from a pure supply and demand dynamics it looks like it will be a very difficult year for ship owners," Atle Sebjornsen, the chief executive of leading listed tanker operator Gulf Navigation Holding, told Reuters.

"But, because of the tonne mile impact, any macroeconomic and political events can create unexpected spikes in the market, for example Iran," he said in an interview.

Tonne miles, a way of measuring aggregate traffic by multiplying voyage distance by weight carried, is used to gauge total demand for tankers in the global market.

U.S. and European sanctions aimed at stopping what the West suspects is a covert nuclear weapons programme are hampering Tehran's ability to sell the oil that generates most of its foreign exchange.

Sanctions are set to be tightened over the next few months. But some of Iran's biggest buyers - like China and India - have already set off on a global supply search which could revive a VLCC market that has been plagued by tanker oversupply and plunging freight rates.

"Where's the oil lost from Iran going to come from? Some of it will come from here - Saudi Arabia, Kuwait and the UAE - but you also have to take some from West Africa, the Caribbean and North Sea," Sebjornsen said.

"That has a big impact on the tonne mile," he said.

Millions of barrels of crude have been shipped on VLCCs from Europe to Asia over the last few months as lower freight rates, weaker European demand and a narrower spread between Brent and Dubai crude prices has made the long voyage profitable.

A reduction of Iranian supply to world markets could make shipping North Sea crude to Asia more attractive still, Sebjornsen said, helping revive tanker rates.

"The prices here (in the Gulf) will come up and then, relatively, the prices of North Sea would be more attractive. Now that's a big driver for VLCC tonne miles," he said.

VLCC SUFFER, CHEMICALS PROMISING

Despite potential for a slight recovery in shipping charges in 2012, the uncertain global economic outlook is still a concern for VLCC owners.

World stocks fell on Monday after fresh economic data raised expectations of a recession in Europe and China signalled it would accept slower growth.

"We all need the Chinese economy to keep growing," he said.

Many ships ordered when the global economic outlook was good have continued to slide into the water over the last few months, outpacing demand for commodities that they carry and battering ship owners' earnings.

Gulf Navigation expects to take delivery of two new VLCCs in 2013, which will have 10-year charter contracts with China's Hainan Group, doubling the company's VLCC fleet size.

While clouds linger over the VLCC market, the chemical tanker business is looking up, thanks to limited new vessels entering a market where demand is strong.

"Chemical space is one of those segments looking most promising," he said.

Gulf Navigation owns eight chemical tankers.

Japan near deal with US on Iran oil, wary of China on defence

By Linda Sieg and Kiyoshi Takenaka

TOKYO, March 5 (Reuters)

Japan and the United States are close to an agreement on cuts in Japanese imports of Iranian oil that will allow Tokyo to avoid U.S. sanctions, and may conclude a deal this month, Japanese Foreign Minister Koichiro Gemba told Reuters on Monday.

But Gemba said the two sides might not make public the size of the cuts because of the possible impact on markets.

"We are in the final stage, but are still making final adjustments (to an agreement)," Gemba said in an interview. "Certainly, we will reduce (the imports), but because the concrete figures would influence the market, I am thinking at this point that it would be better not to announce them."

By Humeyra Pamuk

DUBAI, March 5 (Reuters)

Iran oil substitute search may revive tanker rates
Japan's government has previously said the country would likely be spared from the U.S. sanctions, aimed at pushing Tehran to curb its nuclear ambitions, and has cut its Iranian oil imports by 40 percent over the past five years.

Imports from Iran, the world's fifth-largest oil exporter, accounted for 8.8 percent of Japan's total oil imports in 2011, but Gemba noted that the imports had fallen about 16 percent in terms of barrels per day from the first half to the second half of last year.

Japan's Nikkei business daily reported last month that Japan could cut its Iranian oil imports by a more-than-expected 20 percent in its drive to win a U.S. exemption.

The pressure to cut Iranian imports comes as Japanese utilities are boosting overall fossil fuel imports in the wake of the nuclear disaster at Tokyo Electric Power Co's (Tepco) Fukushima atomic plant last March.

All but two of the country's 54 nuclear reactors are off-line, mostly for checks and maintenance, and the remaining two will be shut down by early May.

About 85 percent of Japan's oil imports and 20 percent of its LNG imports travel through the Strait of Hormuz, Gemba noted, but said that even if Iran blockaded the crucial shipping lane, Japan could keep the economic impact on the country to a minimum because it has ample reserves.

"Even in the worst case, naturally we would consider (measures) including the release of reserves to keep the impact on the Japanese economy and people living in Japan to a minimum," he said. Blocking the Strait would not be in Iran's economic interests and would probably not last long, he added.

Gemba, 47, who took over as foreign minister last September, declined to say whether Japan would consider dispatching its navy, whose overseas deployment is constrained by the pacifist constitution, in the event the Strait of Hormuz was closed.

"It is not appropriate to say anything very concrete at this stage. Of course, we are considering our options based on various possible scenarios," he said.

WARY OF CHINA DEFENCE SPENDING

Gemba expressed concern about China's double-digit defence spending, but said it was vital for the world's second and third biggest economies to develop a "win-win" relationship.

China said on Sunday that its official outlays on the People's Liberation Army would rise 11.2 percent after a 12.7 percent increase last year and a near unbroken string of double-digit rises across two decades.
"I think that China's development is basically an opportunity and that is why it is important to develop a mutually beneficial, strategic 'win-win' relationship," he said.

"But that does not mean there are no causes for concern. The growth in defence spending continues in double digits and we don't know the breakdown well, so we must pay heed."

Japanese, Chinese and South Korean officials were making progress in talks on an investment treaty to protect cross-border investments, Gemba said, adding an agreement was possible this year. "We are currently aiming at steady progress and we are getting close," he said.

China and Japan this year mark 40 years since resuming diplomatic relations and both sides seem eager to keep ties on an even keel. But strains persist over matters ranging from China's bitter memories of Tokyo's wartime aggression to rows over the rights to gas beds in the East China Sea.

Gemba, who represents nuclear crisis-hit Fukushima in parliament, also urged foreign countries to base limits on travel and imports from Japan on a scientific foundation, and said he hoped the rebuilding of the disaster-hit northeast region would be a model for revitalising the country as a whole.

India's top Iranian oil buyer plans to cut imports

By Nidhi Verma

NEW DELHI, March 5 (Reuters)

India's largest Iranian oil buyer plans almost to halve daily imports, industry sources said on Monday, becoming the latest Asian refiner to cut supplies from Iran as Western sanctions make trade with OPEC's second-largest producer difficult.

India, China and Japan buy almost half of Iran's estimated 2.6 million barrels per day of oil exports, but a raft of U.S. and European sanctions aimed at choking off funding for Iran's nuclear programme are squeezing its oil supply lines.

State-run Mangalore Refinery and Petrochemicals Ltd, or MRPL, could reduce imports to as little as 80,000 barrels per day (bpd) for the fiscal year starting on April 1, the sources said. It usually buys 150,000 bpd.

MRPL officials could not immediately be reached for comment.

Like other Asian nations, India appears to be trying to wean itself off Iranian crude before the sanctions take effect on June 28. MRPL is the third Indian refiner planning import cuts.

"There will be a drastic reduction in volumes from Iran," said one source. "For the next fiscal year, MRPL plans to restrict its term deal to 80,000-100,000 bpd."

Another source said the refiner planned to only import 80,000 bpd, with the option to buy more.

Iran is the biggest crude supplier to India after Saudi Arabia.

GRAPHIC on Japan, China, and India's Iranian oil imports: http://link.reuters.com/saf26s

If refiners go ahead with plans to cut Iranian imports, they would cut crude purchases from the Islamic Republic by more than 20 percent in the 2012/13 fiscal year, according to Reuters' calculations. That would be more than the at least 10 percent cut the government has unofficially requested refiners should make, sources have told Reuters.

The governments in New Delhi and Beijing have publicly criticised U.S. sanctions demanding punishment for the U.S. operations of companies that fail to reduce Iranian oil imports.

In public, New Delhi says it will not comply with the sanctions. But behind the scenes, sources at state-run refineries say the government has instructed them to cut imports.

It is unclear whether that is to avoid the political damage of keeping the flow unchanged or simply to avoid the headache and expense of trying to find ways to pay for the oil.

Even with cuts of more than 20 percent, India will remain among the top buyers of Iranian crude and so still has to maintain the $11 billion annual trade with Iran. The two sides have held meetings over the past month to discuss how to bypass the sanctions to ensure both can pay for bilateral trade.

China has used Iran's growing political isolation to get better terms than Iran wanted to give on annual oil contract negotiations.

To force Iran to cut the deal it wanted, China reduced imports from Iran during the first quarter so deeply that even if it returns to the same daily flow as in 2011, the average reduction for the year would be 14 percent.

Japan and the United States are close to a deal on cuts in Iranian crude oil imports, Japanese Foreign Minister Koichiro Gemba told Reuters on Monday. That could amount to a higher-than-expected 20 percent or more a year, a newspaper reported last month, as Tokyo seeks to win waivers from U.S. sanctions.

Japanese refiners are waiting for word from their government on how much they need to cut imports for Japan to garner a waiver from the United States to sanctions.
Refiners are negotiating annual contract deals due to take effect from April, so want to ensure those deals are compliant with government direction. The United States can exempt countries from the sanctions if they have made substantial reductions in imports.

PAYMENT HEADACHE

Payment problems have already reduced the amount of oil MRPL bought from Iran this year: the refiner had a contract to buy 142,000 bpd of oil in 2011/12, but its only imported between 120,000 and 122,000 bpd, the sources said.

"As was the case in 2010/11, MRPL was hoping to take 150,000 bpd against a term deal of 7.1 million tonnes, but supplies were hit due to payment problems," a source said.

One of the sources said MRPL, in talks with the state-run National Iran Oil Co., was waiting to see how the new payments mechanism would work before deciding on its crude purchases.

Indian companies are paying for Iranian oil in euros via a bank in Turkey, after a clearing mechanism was scrapped under pressure from Washington in December 2010.

As an alternative, India and Iran have agreed to use the Indian currency, the rupee, to pay for 45 percent of oil imports.

Iran has already started paying Indian exporters in rupees, but refiners are waiting to hear from the government on whether they will have to pay hefty taxes before using rupees to pay for oil.

MORE ARAB CRUDE

India's state-run Hindustan Petroleum Corp has said it would cut its annual imports of Iranian crude by about 15 percent to 60,000 bpd.

State-run refiner Bharat Petroleum is also planning to cut imports from Iran, according to industry sources. Private refiner Essar Oil is keeping imports unchanged at 100,000 bpd.

Like other Indian refiners trying to make up for the loss of Iranian crude, MRPL has been seeking additional crude from Saudi Arabia, the world's top oil exporter, as well as Kuwait and the United Arab Emirates.

The refiner is also planning its first-ever import deal from Iraq, although the amount is likely to be small. India is seeking up to 80,000 bpd oil from Iraq.
India MRPL plans hefty cut in Iran oil imports-sources
By Nidhi Verma
SYDNEY, March 5 (Reuters)

Iran's biggest Indian oil client, Mangalore Refinery and Petrochemicals Ltd (MRPL), plans to cut its annual import deal with Tehran by as much as 44 percent to 80,000 barrels per day (bpd) in 2012/13, two sources said, as western sanctions make trade more difficult.

The cuts in oil imports from Iran by Mangalore Refinery and Petrochemicals Ltd (MRPL) would imply a reduction of more than 20 percent in India's total purchases of Iranian oil in the next fiscal year, according to Reuters' estimates.

MRPL plans a hefty cut in imports of Iranian oil in the next fiscal year beginning April, said the sources, who are both familiar with the company's crude import plans.

"There will be a drastic reduction in volumes from Iran," said one of the sources.

That would come as China and Japan, Iran's other leading Asian buyers, make similar reductions in imports from Tehran.

Iran is India's second-biggest oil supplier after Saudi Arabia.

U.S. and European sanctions, aimed at forcing Iran to halt suspected development of nuclear weapons, are hampering Iran's ability to sell its crude oil, which generates most of the country's foreign exchange.

Washington will impose sanctions from June 28 on companies facilitating Iran's oil trade, but many firms are already preparing for the deadline.

Japan is in final talks with Washington on an agreement on cuts in Iranian crude oil imports that could amount to 20 percent or more a year, a newspaper reported last month, as Tokyo seeks to win waivers from the U.S. sanctions.

LOWER IMPORT VOLUMES

"For the next (fiscal) year, MRPL plans to restrict its term deal to 80,000-100,000 bpd, but imports could rise if the new payment mechanism operates smoothly," said one of the sources, adding talks were taking place with National Iran Oil Co (NIOC) to finalise the deal.

The second source said the refiner plans to commit to a deal for 80,000 bpd and keep an option to buy more.
MRPL agreed a deal to import 142,000 bpd oil in 2011/12, but the state-run firm's actual imports during the year, which ends on March 31, 2012, will be 120,000-122,000 bpd, the sources said, because there have been difficulties in payment.

"As was the case in 2010/11, MRPL was hoping to take 150,000 bpd against a term deal of 7.1 million tonnes, but supplies were hit due to payment problems," said the second sources.

No comment was available from MRPL, and NIOC could not be reached for comment. The Indian refiner, whose coastal refinery is configured to run Iranian crude, will discuss its annual crude import plan this week, sources said.

Indian companies are currently paying for Iranian oil via a bank in Turkey, after a long-standing Asian clearing mechanism was scrapped under pressure from Washington in December 2010. India and Iran have agreed that 45 percent of oil payments should be made in the rupee, which is not freely tradeable.

Using this new mechanism, Iran has started to clear debts with Indian exporters but oil refiners are waiting for clarity on hefty local taxes before making payment for their purchases.

IRAQ DEAL

The Indian government has said it will not implement U.S. and EU sanctions, and has said publicly that it will buy as much as possible from Tehran. But sources have said it has asked refiners to cut imports from Iran by about 15 percent.

Its mostly state-run refiners are planning cuts of at least 10 percent in Iranian crude imports, similar to China and Japan, as U.S. measures make it difficult for the top Asian buyers to keep doing business with the OPEC producer.

Japan, China and India are Iran's top crude buyers, taking about 45 percent of its 2.6 million bpd of exports. Iran is the world's fifth-largest oil exporter and the second-biggest producer in OPEC after Saudi Arabia.

Refiner HPCL has already said it will cut Iranian imports by about 15 percent to 60,000 bpd in its annual contract. An HPCL source said the refiner planned to buy 40,000 bpd from Iran on a firm basis and keep 20,000 bpd as optional volumes.

Another state refiner, Bharat Petroleum, is also planning to cut imports from Iran. Private refiner Essar Oil is sticking to 100,000 bpd.

MRPL has been consistently widening its crude slate as it is expanding its southern India based coastal refinery to process 300,000 bpd.

To make up for its cut in Iran crude supplies, MRPL is planning its first-ever import deal with Iraq among other suppliers, the sources said, although they added the volume from Iraq will be nominal.

Like other Indian refiners, MRPL has also been seeking additional supplies from Saudi Arabia on a monthly basis. It has already doubled its term deal with Saudi Arabia for this year to 42,000 bpd and plans to renew its 20,000 bpd deal with Kuwait for next fiscal year.

MRPL also plans to buy about 40,000 bpd oil from Abu Dhabi National Oil Company (ADNOC).

Iranian ship to unload crude at Shell Singapore

By Francis Kan

SINGAPORE, March 2 (Reuters)

An Iranian tanker is moored at Royal Dutch Shell's Singapore refinery to discharge crude oil, according to Reuters data and sources, highlighting the different approaches European oil companies are taking to Iranian oil ahead of an EU ban.

The 270,000-tonne supertanker Delvar arrived on Thursday at Bukom island, where Shell's 500,000 barrel-per-day refinery is located, tanker tracking data seen by Reuters showed.

The vessel, part of the fleet of the National Iranian Tanker Co, is due to discharge 1.5 million barrels of crude, three sources said on Friday. Oil traders had speculated Tehran was struggling to sell the cargo due to tightening sanctions.

"Yes, Shell bought it. There is no other reason for it to be anchored at Bukom," said a Singapore-based ship broker.

Shell's continued involvement in Iranian oil contrasts with some rivals such as Total, which have already stopped buying the crude ahead of the European Union ban starting from July 1. With the ban yet to take effect, Shell is doing nothing illegal.

"Shell is usually more pragmatic," said a trading source at a European oil company. "I would not be surprised if they continued to lift a little bit until it becomes illegal to do so." The Anglo-Dutch company said: "We do not comment on our trading activities. Shell complies with all applicable sanctions."

Western sanctions, aimed at pressuring Iran over its nuclear programme, are hampering Iran's ability to sell its crude oil, which generates most of the country's foreign exchange earnings.

Washington will impose sanctions from June 28 on companies facilitating Iran's oil trade, but many companies are already preparing for the deadline.
In the latest evidence that the sanctions threat is disrupting Iran’s trade, industry sources said Shipping Corp of India was forced last month to cancel at least one Iranian crude shipment because it could not secure insurance cover for the vessel.

Tehran’s Japanese customers are seeking the inclusion of force majeure clauses in term supply contracts with Iran in case they are unable to pay or transport cargoes in the future, industry sources said.

Japan, China and India are Iran’s top crude buyers, taking about 45 percent of Iran’s 2.6 million barrels per day (bpd) of exports.

SPECULATION

The Delvar arrived on Feb. 23 off Indonesia’s Karimun Island, an offshore storage point near the oil-trading hub of Singapore that is often used for ship-to-ship transfers (STS).

The arrival sparked speculation in oil markets that the cargo was crude that Iran had been unable to sell elsewhere because of the sanctions. Local oil traders said NITC vessels have not been known to call at Karimun Island in the past.

The Delvar moved into Singapore waters on Feb. 26 after discharging a cargo of condensate into a smaller, China-bound tanker.

The 60,000-tonne vessel, Xuan Wu Hu, was bound for an oil complex in Huizhou, where China National Offshore Oil Corp (CNOOC) and Shell jointly operate a petrochemical complex.

Industry source say Shell takes around 100,000 bpd of Iranian crude into Europe and a similar quantity into Japan under a deal with Japanese company Showa Shell that expires in March.

Shell Chief Executive Peter Voser declined to detail Shell’s Iranian crude purchases when speaking on Feb. 2 in a company earnings briefing.

"Shell will comply with the sanctions and we will therefore get our crude from somewhere else," Voser said.

Singapore imported around 20,000 bpd of Iranian crude over the past year, industry estimates show. Official data on Iranian imports to Singapore is not available.

Shell’s Bukom refinery, the oil major’s largest, makes up the biggest share of this volume, industry sources said.
Iran ship insurer says it will meet Western claims
By Clare Baldwin

HONG KONG, March 2 (Reuters)

ough new U.S. sanctions against Iran are raising concern that the OPEC member's insurers may not be able to pay Western claims in the event of an accident, but Iran's main ship insurer said it is confident it would be able to.

The U.S. sanctions bar financial institutions dealing with Iran's central bank and have sparked concern over how Iranian insurers with state links would be able to pay Western claims.

Privately owned Kish Protection & Indemnity Club, the main insurer for NITC, Iran's biggest oil tanker fleet which has about 40 ships, relies on state-run Central Insurance of Iran as its reinsurer. Any claim made against it would likely have to go through a sanctioned bank.

That means a U.S. shipping company may not be able to receive insurance payments from Kish P&I if an accident occurs with a NITC tanker, leaving the U.S. firm potentially liable to hundreds of millions of dollars through no fault of its own.

"You cannot say that it's Kish P&I's problem because Kish P&I is ready to pay for the loss," Ansari Dezfuli, the club's deputy general manager, said in a telephone interview.

"We are doing our best to find a solution, a legal solution ... We will succeed in this," he said, adding that claims could take years to settle while sanctions may only be temporary.

Kish has not faced any claims since it was formed last year.

The United States does provide room for business transactions with sanctioned entities on a case-by-case basis. It was unclear whether insurance claims would receive such an exemption.

While sanctions against hull and machinery insurance may be legitimate because they have an impact on Iranian shipowners, Dezfuli said, sanctions against P&I insurance were unfair because they affect the crew, third parties and the environment.

If an accident should occur, Dezfuli said the club may consider asking a member to pay damages upfront and be reimbursed later.

Although NITC's fleet does not operate in U.S. waters, they do travel through the same global sea lanes and stop at many of the same foreign ports as U.S. vessels.

"The financial restrictions currently in place in respect of proscribed institutions, organisations and individuals would seem to suggest that receiving payment from such entities would be difficult," said David Bolomini of the Group of International P&I Clubs, an association of customer-owned ship insurers that covers 95 percent of the world's tankers.

"However, this is an issue of licensing and enforcement and therefore a matter for the authorities in the member states or states concerned."

Kish P&I club, which is not a member of the international group, was created by a group of Iranian shipowners shortly after European marine insurers withdrew coverage to NITC due to sanctions. U.S. lawmakers are considering adding NITC to its sanctions list.

The European Union has also imposed tough sanctions banning the transport, purchase and import into Europe of Iranian crude oil and petroleum products and related finance and insurance.

That has forced India and other Asian shipowners dependent on European insurance to look for replacement coverage elsewhere, such as in China, Russia or the Middle East.

Dezfuli said Kish P&I had not been approached by foreign fleets for coverage, but it would like to eventually expand into the Asian market.

India cancels Iran oil shipment due to sanctions
By Nidhi Verma and Randy Fabi

NEW DELHI/SINGAPORE, March 2 (Reuters)

India's largest shipping company was forced to cancel an Iranian crude oil shipment last month because its European insurers refused to provide coverage for the vessel on the grounds of tightening sanctions on the OPEC member, industry sources said.

The European Union announced new sanctions in January prohibiting European insurers from indemnifying ships that carry Iranian crude and oil products anywhere in the world.

Iran is India's second-biggest supplier of oil after Saudi Arabia, with some $11 billion a year in shipments meeting about 12 percent of India's crude import needs.

The suezmax tanker, Maharaja Agrasen, owned by state-run Shipping Corp of India, was initially booked by refiner Indian Oil Corp. to load Iranian crude oil in mid-February, but could not get the necessary insurance coverage.
"The European Mutual Protection and Indemnity Club is covering contracts concluded before January 23 on a case-by-case basis up to July 1. They have said they cannot cover contracts finalised after January 23," said a shipping source with direct knowledge of the deal.

"Shipping Corp concluded the fixtures and applied for a cover which was not extended by the European P&I Club," he added, referring to a group of maritime insurers. Two shipbrokers also confirmed the tanker cancellation.

The two Indian companies made the deal in the spot market after the January 23 deadline, sources said.

The crude oil was intended to be in addition to the annual term deals between IOC and National Iran Oil Co (NIOC). State-run Indian Oil has a deal to buy 30,000 barrels per day of oil from NIOC in the fiscal year ending March 31.

The India government is now weighing up options including extending sovereign guarantees for its shipping lines and buying Iran oil on a delivered basis to ensure cargoes from July, former Shipping Secretary K Mohandas said last week.

Europe and the United States are enforcing tougher economic sanctions in the hope of isolating Iran and forcing it to halt its nuclear programme, which the West fears will be used to develop nuclear weapons.

Iran, the biggest producer in OPEC after Saudi Arabia and the world's fifth largest oil exporter, says its nuclear programme is purely for peaceful purposes.

**Iran starts paying Indian exporters in rupees**

By Ratnajyoti Dutta

NEW DELHI, March 1 (Reuters)

India's exporters have begun receiving the first rupee payments from Iran, Indian government and trade sources said on Thursday, kicking off a mechanism to skirt Western sanctions which have made doing business with Tehran tougher.

About $3 billion in Iranian import arrears have accumulated since December 2010 when a previous payment conduit was closed under pressure from Washington, which is using sanctions to try to stop Tehran's contentious nuclear programme.

Payments to Indian exporters are being remitted through Iran's Bank Parsian which has opened an account with India's UCO bank, the sources said. Bank Parsian is among private Iranian banks that are free from sanctions against Iran's state-owned banks.

The agreement came after meetings between a visiting Iranian delegation and officials from India's finance and banking sectors over the past two days.

"Payments (to Indian exporters) have started coming very recently through Bank Parsian's account with UCO bank," said M. Rafeeqe Ahmed, president of the Federation of Indian Export Organisations, the top exporters' body, told Reuters.
“Whatever has been stuck in the pipeline, that will be cleared.” Ahmed is taking part in government negotiations to find a solution to the payment problems that have hit trade between the two countries after U.S. sanctions on dollar deals. His organisation is a quasi-government body set up by the trade ministry.

Two government sources said the conduit through Bank Parsian and UCO bank was only to settle payments for Indian exports to Iran.

Indian oil importers have been paying for around $11 billion a year of crude since the middle of 2011 through Turkey’s Halkbank, but this route would have been expensive for Iranian importers given sharp falls in the rial.

India was Tehran’s second-biggest crude oil customer last year after China. Iranian oil accounts for about 12 percent of its needs. Most of the Iranian arrears are for imports of iron and steel ($623 million), chemicals ($453 million) and cereals ($419 million), machinery ($143 million) and pharmaceuticals ($87 million). Indian rice suppliers have also reported defaults by Iranian buyers and have said they are owed at least $144 million.

With payments for oil through Halkbank now looking vulnerable to fresh sanctions, India and Iran have agreed to settle 45 percent of this trade in rupees and boost exports to narrow their trade gap. Oil buyers are waiting for tax issues to be cleared up before they use the mechanism.

India abides by United Nations sanctions on Iran, but has refused to go along with new financial measures imposed by the United States and European Union that aim to punish Iran for its nuclear ambitions. India has pushed back the visit of a delegation to Iran to March 10-14 from this month to explore boosting exports. Ahmed will be part of that team.

### Iran’s gold-for-oil offer won’t shake bullion world

By Amanda Cooper

LONDON, Feb 29 (Reuters)

Gold bugs may take heart from Iran’s decision to accept the metal as payment for its oil rather than dollars, but few in the bullion market believe Tehran’s customers will leap on the opportunity to do so.

Iran’s central bank governor said on Tuesday Tehran was willing to accept gold as payment for its oil as sanctions imposed by the United States and Europe hamper the country’s financial institutions and force its trading partners to seek alternative ways to settle transactions.

Gold, which has risen by some 13 percent so far this year to around $1,780.00 an ounce, is often bought as a last-resort alternative to fiat currencies, as a safe-haven against unpredictable stocks and bonds or as protection against rising inflation that can erode the value of any portfolio.

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**Reuters oil poll - February 2012**

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COMMODITIES BATTERED BY SHARPEST LOSS SINCE MAY

COMMODITIES SHIVER AFTER U.S. CREDIT DOWNGRADE

GOLD REBOUNDS ON JAPAN DEBT DOWNGRADE DESPITE CORRECTION FEARS

GOLD: WILL RISK AVERSION BANISH CORRECTION FEARS?

SHELL SHUTS SINGAPORE REFINERY AFTER FIRE

CLOSURE OF SHELL’S BIGGEST REFINERY DRIVES UP ASIA FUEL COSTS

THREAT OF IRAN SANCTIONS WORRIES OIL MARKET

IRAN SANCTIONS CRISIS ROILS ENERGY, SHIPPING
IRAN SANCTIONS CRISIS ROILS ENERGY, SHIPPING  MARCH 2012

One of the advantages to Iran of taking gold as payment is precisely its status as a quasi-currency and one which, in its physical form at least can help the republic bypass the sanctions on its financial system.

The advantages for its customers however are less clear. "It's down to the sanctions in place on currency transactions in and out of Iran ... That is probably the main motivation. You can't transfer dollars, but at least you can put a boat in the water and send some gold," Ole Hansen, Saxo Bank senior manager, said.

"For the recipient of the oil, it's suddenly a different ball-game. Instead of transferring some money, there is the risk of who covers what costs (of the deal). Who is going to carry that? So I don't think it is going to fly."

Iran used gold and oil to pay for shipments of grain earlier this month, according to European grain traders. It has also used currencies such as the yen or the rouble to pay for grain imports, thereby skirting the need to employ either dollars or euros.

NO FRESH DEMAND

In the unlikely event that using gold in barter deals became widespread, it still would not create a new long-term source of demand, analysts say.

"When Iran sells oil and receives gold, it will have to use the gold to do something else. If this became an established practice, which I would be very surprised by, yes there would probably be a positive impact on the price," RBS analyst Nikos Kavalis said.

"But it's not the same thing as there being an actual end-use for gold."

Sanctions from the West include a phased ban on its oil imports and some of Iran's largest trading partners such as Japan and South Korea have bowed to U.S. pressure and announced cuts to quotas, while Iran's two largest customers, India and China, have not.

"We suspect there is quite a lot of bilateral trade (with China) - it isn't simply a case of accepting gold - what Iran is prepared to do is accept a certain amount of domestic currency of the countries that it is trading with," Nic Brown, head of commodities strategy at Natixis, said.

"There is in effect a barter system going on for much of the oil that Iran is still exporting...it's effectively being netted off against goods and investment and services that Iran is receiving from these countries It won't ever be a case of gold substituting entirely for the dollar," he said.

India is looking to source more oil from the likes of Iraq or Saudi Arabia, as trading with Iran has become more difficult, but local gold market experts say the chances of the country using gold to ease its transactions with Tehran are nonexistent right now.

"Exports in any form is not possible unless and until Iran brings down its import duty," said Rajiv Jain, chairman of Gems and Jewellery Export Promotion Council, adding that Iran imposes an import duty of 30-40 percent on jewellery or other forms of gold.

There is also the issue of China, rapidly closing in on India for the position as world's largest gold consumer. The country is also the largest producer of the metal and its mines cannot churn out enough bullion to satisfy demand.

"China interestingly enough is under-resourced in terms of its gold reserves but, notwithstanding that, its also the world's biggest gold producer so presumably its got the ability to fund any purchases from Iran that it needs to put through," Ross Norman, chief executive of bullion dealer Sharps Pixley said.

"What the Iranians are saying is that there are other financial mechanisms out there for those who want to transact."

Iran seeks to sell crude in Asia as sanctions bite-traders

By Yaw Yan Chong

SINGAPORE, Feb 29 (Reuters) - Iran is trying to sell about 200,000 tonnes of crude oil from a supertanker floating off Singapore, traders said on Wednesday, a rare move that highlights how U.S. and European sanctions on Tehran's oil exports are hindering sales.

In another sign of Iran's difficulties, traders say a second supertanker that is heading towards China with about 270,000 tonnes of crude oil is carrying volumes which are above the usual term-contract supplies to the world's second largest oil consumer.

"Iranian light sweet crude is being offered to blenders, especially those that operate floating storages off Malaysia, and to players who sell refining feedstock into China, off the Delvar," a Singapore-based Western crude trader said.

"It is hard enough to sell Iranian crude, given the circumstances, what more a such prompt cargo that is already literally at the doorstep here."

The 270,000-tonne Delvar arrived in Singapore from Karimun in Indonesia over the weekend after discharging a 60,000 tonne cargo of condensate bound for south China.

Iran, the world's fifth largest oil producer, has been struggling to sell its crude in the face of tightening U.S. sanctions and an EU embargo that kicks in on July 1.
The sanctions are aimed at punishing Iran for its nuclear programme which the West believes will be used for atomic weapons, but which Iran says is for power generation.

CHINA DEMAND

China, India and Japan, Asia's main energy buyers which collectively take 45 percent of Iran's crude exports, are planning to cut their imports from Iran by at least 10 percent as the sanctions make purchases difficult.

China is still actively buying Iranian crude, and the second supertanker, the Darab, is bound for Qingdao port, in the refining region of Shandong province, with additional volumes of heavy-sour crude. Traders said this cargo, which loaded in the United Arab Emirates, is over and above the usual term contract volumes that go into Shandong. The Darab is due to arrive on March 19.

A third supertanker, the Himand, is expected to arrive in Ningbo on March 6, with what traders said are normal volumes from term deals. The vessels are part of the National Iranian Tanker Co.'s (NITC) fleet. "The flow of Iranian crude into China is mainly termed, and delivered mostly by Chinese tankers, though there are some regular flows by Iranian ones," a trader said.

"The Chinese have no problems taking the extra volumes, especially now, because they are fundamentally short on feedstocks, and their ability to buy has been hampered by the very-high flat-price levels currently." China needs all the crude it can get, after supplies fell due to the closure of its Penglai oilfield since September and the drop in exports from Southern Sudan.

Refineries are also producing less fuel because soaring crude prices have made their business unprofitable.

East Asia imports Iranian fuel oil, and a monthly average of 550,000-600,000 tonnes of both straight-run 280-cst from Bandar Mahshahr and low-density 380-cst from Bandar Abbas were exported into East Asia last year, the highest monthly average for at least six years, Reuters data showed.

The Iranian cargoes are either used as refinery feedstock, or as high-quality blendstock because of its low-density and low-water specifications.

Barter, other steps help Iran firms beat sanctions

By Daniel Fineren

DUBAI, Feb 29 (Reuters) -

Iranian firm AHT exports millions of dollars worth of nuts and dried fruit from Iran each month but Western financial sanctions mean it gets little money in return. Instead it is paid with other goods, such as cardboard boxes and metal cans from China.

"Most of our business right now is like this. No money is involved in the process," Mohammad Amin, managing director of the pistachio and raisin exporter, told Reuters at an international food industry show in Dubai this month.

"We import the goods, sell the goods to the local market, get the money from the local market, and then pay my staff and my farmers.

"No money is circulating -- it's like thousands of years ago," Amin said between negotiations with prospective buyers over bowls brimming with pistachios. Last year AHT's exports totalled about $100 million, mostly to China and India.

Financial sanctions imposed over Iran's disputed nuclear programme have dealt a heavy blow to its foreign trade. Since late last year the United States has stepped up its use of anti-money laundering legislation to make it legally dangerous for banks that have any U.S. business to maintain ties with Iran.

As a result, Iranian firms have been frozen out of much of the global banking system which finances trade. It is difficult or impossible for them to obtain letters of credit or conduct international transfers of funds through banks.

But the cases of AHT and other Iranian companies contacted by Reuters suggests many are finding their way around the obstacles and continuing to do business, albeit at considerable inconvenience and cost.

Some Iranian exporters and importers are resorting to barter; others are putting together complicated but legal networks of partners abroad to handle payments. Some are using transfers through money exchange houses instead of banks, or employing a legal but largely unregulated money transfer network known as hawala in the Middle East and hundi in India.

"Commerce takes precedence over everything, so if tomorrow there are sanctions or whatever else, there are always different ways of getting round it," said Sanjiv Sawla of Mumbai-based trading firm M Lakhamsi.

"There was a minor aberration for a while where there was a drop-off in trade, but everybody has put their systems in place now," he said. His firm trades about $125 million a year of seeds, spices, wheat and rice -- some $5-10 million with Iran.

"I get my money out of Dubai. I don't know how they arrange it...The product never touches Dubai, the product just goes from India to Iran and the payment comes from Dubai these days...Until about six months ago, it used to come from Iran."

SPECIAL REPORT-Iran's cat-and-mouse game on sanctions:  http://link.reuters.com/da6f6s
SPECIAL REPORT-For Iran oil trader, Western ties run deep: http://link.reuters.com/vyj66s
Iran's exports in the last fiscal year to March 20 were estimated at $107 billion, of which $81 billion were oil and gas, according to the International Monetary Fund. Imports were estimated at $70 billion.

The Iranian government is scrambling to find ways to continue getting paid for its oil; Iran has agreed with India, for example, to settle 45 percent of their oil trade in the rupee, which is not freely exchanged in global markets. The rupees may be used to pay for imports into Iran of Indian iron and steel, chemicals and cereals.

Most of Iran's non-oil businesses cannot count on such strong demand for their products, so for them it may be more difficult to work around the sanctions. But there are signs that many are managing.

Because of the freeze on bank transfers, the 20-odd Iranian food exporters among the 3,800 stands at this month's Dubai show paid cash or used the hawala network to secure modest stands in an outlying building at the sprawling exhibition centre.

Some Iranian exporters and suppliers to Iran said they still used banks in Turkey, which has kept some banking channels to Iran open to handle oil payments.

But AHT’s Amin said he had largely stopped using Turkish banks because of high fees or taxes, and because he feared the next wave of sanctions could freeze payments to him that were still in the pipeline. Barter is safer, he said.

Other Iranian companies have switched from banks to money exchange houses in Dubai or elsewhere for their international payments. The exchange houses have continued to do business legally with Iran, although limits on the size of individual transfers make them less convenient than banks.

Iran's Gohar Saffron, which exports around 11,000 kilos a year of the highly prized spice, has started using exchange houses in the last few months to keep its $30-million-a-year business going. Iran is the world's biggest producer of saffron.

"We can do it but only with a lot of trouble," Hutan Motamedi, Spain-based marketing manager for Gohar, said at the company's stand. "Every year sales are growing because every year we get into a different country...Some of the sales go directly, but it's easier if it goes via Spain."

Other Iranian firms are using the hawala network, traders said. There are thought to be hundreds of millions of dollars transferred in and out of Dubai each year through the network, which is a popular way for the emirate's sizeable south Asian and Iranian communities to send money home. It is barely documented and based largely on trust.

Typically, an expatriate worker in Dubai pays an intermediary called a hawaladar in dollars or dirhams; the hawaladar calls a contact, often a trusted relative, in the receiving country, and the contact pays the worker's family in local currency. Hawal-
Oil price rise raises spectre of global recession

By Zaida Espana and Dmitry Zhdannikov

LONDON, Feb 26 (Reuters) -

A jump in energy prices is jamming the slow-turning cogs of an economic recovery in the West, but that may be nothing compared to the economic shock an Israeli attack on Iran would cause.

Oil rose to a 10-month high above $125 a barrel on Friday, prompting responses from policymakers around the world including U.S. President Barack Obama, watching U.S. gasoline prices follow crude to push towards $4 a gallon in an election year.

Europe may have more to fear as its fragile economic growth falters and Greece, Italy and Spain look for alternative sources to the crude they currently import from Iran, where an EU oil embargo, intended to make Iran abandon what the West fears are efforts to develop nuclear weapons, comes into force in June.

In euro terms, Brent crude rose to an all-time high of 93.60 euros this week, topping its 2008 record.

"The West's determination to prevent Iran acquiring nuclear weapons is coming at a price - a price that might include a second global recession triggered by an oil shock," said David Hufton from the oil brokerage PVM.

In dollar terms, oil prices are still some $20 a barrel short of their 2008 record of $147. But the latest Reuters monthly survey will on Monday show oil analysts revising up their predictions for Brent crude by $3 since the previous month.

Such a change is big in a poll of over 30 analysts, and last happened at the peak of the Libyan war in May.
Ian Taylor, head of the world's biggest oil trading house Vitol, told Reuters this week prices could spike as high as $150 a barrel if Iran's arch-enemy Israel launched a strike at its nuclear facilities - an option Israel has declined to rule out.

"I used to think this would never happen," Taylor said, "but everyone you speak to says the Israelis will have a go at striking at Iranian nuclear sites.

"The day that happens, you have to believe the Iranians throw a few mines in the Strait of Hormuz and, for a few hours at least or maybe more, I cannot see a scenario where prices would not be at that sort of level ($150)."

The U.N. nuclear watchdog said on Friday Iran had sharply stepped up its uranium enrichment, which Iran insists is solely for civilian purposes.

Israel has warned that, by putting much of its nuclear programme underground, Iran is approaching a "zone of immunity", but it has also said any decision to attack is "very far off".

Wall Street bank Merrill Lynch said this week that oil prices could climb to $200 over the next five years.

So far this year, dollar prices for Brent crude have risen by more than 15 percent, pushed up mainly by fears about Iran. The loss of supply from three small and mid-sized producers suffering internal turmoil - Syria, Yemen and South Sudan - has added to the supply worries.

WEAK GROWTH, HIGH PRICES

A stabilisation of the U.S. economy may explain some of the rise in oil prices, but the global economy is growing far more slowly now than at this time last year, yet crude prices are just as high.

World equities and oil have typically been closely correlated since 2008 because both were driven by global demand. However, as oil prices start to respond to supply problems, the correlation is evaporating, and the global economy is already paying a high price.

Data published this week showed unexpectedly weak activity in Europe's most powerful economy, Germany, and in France, sparking fresh worries that the region could tip into recession.

Few have forgotten that in 2008, within six months of hitting its all-time high, oil plunged as low as $35 a barrel with the onset of the global credit crisis.

In the United States, demand for refined oil products is close to its lowest level in nearly 15 years, indicating that motorists are cutting back their mileage.

"The price spike is going to be a challenge for politicians in the West running for re-election," said Olivier Jakob from the Petromatrix consultancy.

He said developed countries would find it hard to justify a release of strategic oil stocks similar to what they did in 2011. Unlike a year ago, when Libyan oil exports were disrupted by a war, this year "there is ... instead a voluntary restriction on buying from a specific country," said Jakob.

Other than a release of oil stocks, developed countries could resort to yet another round of monetary easing, to which emerging markets will respond with quantitative tightening, price controls and subsidies, said analysts from HSBC.

"In terms of fiscal health, it would seem that Asia is better placed than other regions to deal with an oil price shock," HSBC said in a note last week.

**World can replace oil lost to Iran sanctions -US**

By Roberta Rampton

WASHINGTON, March 1 (Reuters)

Global oil producers appear to have enough spare capacity to make up for Iranian exports curtailed by tough new sanctions, U.S. Energy Secretary Steven Chu said on Thursday.

Chu said it was important that sanctions be used to crimp Iranian oil sales to ensure Tehran does not develop nuclear weapons, despite the release of an Energy Information Administration report this week that showed supplies are tight.

"There is spare capacity and we believe - we'll see - but I think there is sufficient spare capacity," Chu told reporters on Capitol Hill, noting that the administration will do whatever it can to help stabilize oil prices, including looking at tapping strategic reserves.

"It would be very destabilizing, I think everybody would agree, if Iran developed nuclear weapons. We're trying to convince Iran in its best interests not to go in that direction," he said.

The final determination on whether there is enough spare capacity is up to President Barack Obama, who will announce it to Congress by the end of the month.
Chu’s confidence in supplies speaks to the “tough balancing act” faced by the Obama administration as it implements the sanctions, said Suzanne Maloney, a former State Department adviser and now a senior fellow at the Brookings Institution.

The administration must show it intends to crack down as a deterrent to countries that buy Iranian oil and “unnerve Tehran’s confidence in its ability to ride out these pressures,” Maloney said.

Iran maintains its nuclear program is for peaceful purposes and denies it is trying to build nuclear weapons.

Obama must also fend off any ideas in an election year that he is anything but tough on Iran, said David Pumphrey, an analyst at the Center for Strategic and International Studies.

“‘We think we are capable, in effect, of seeing this through’ - that’s how I would read the messaging,” said Pumphrey, a former Energy Department official.

GREEN LIGHT’ FOR SANCTIONS - LIEBERMAN

In a report that is part of the new sanctions law, the Energy Information Administration (EIA), an independent arm of the U.S. Energy Department, found that Saudi Arabia has been pumping more oil.

Saudi Arabia, which has the world’s biggest spare oil capacity, has produced an average of 9.7 million barrels per day over the last two months, up 600,000 bpd from the same period last year, the EIA said.

But the EIA also said the cushion provided by that spare capacity was modest by historical standards: 2.5 million barrels per day, compared with an average of 3.7 million bpd a year ago.

That cushion is about equal to total shipments from Iran, the world’s third-largest oil exporter.

Relying on the spare capacity “will require everything to work almost flat out, and hoping that additional capacity can come online smoothly,” said Sarah Emerson at Energy Security Analysis Inc in Boston.

"I think we need to expect some hiccups along the way.”

U.S. sanctions on foreign banks that handle Iranian oil payments begin to take effect in June. But Obama, under a law he signed late last year, can offer exemptions to countries that show they have “significantly” cut their purchases from Iran.

“We still don’t have a definition of significant yet. It’s a bit of ‘the eye of the beholder,’” Pumphrey said.

There is strong political pressure from Congress to push ahead. Senator Joe Lieberman, an independent, said the EIA report was a "green light" to implement aggressively the energy sanctions.
Singapore firms stop Indonesia palm oil exports to Iran

By Niluksi Koswanage
KUALA LUMPUR, Feb 9 (Reuters) - Singaporean firms have stopped supplying Iran with Indonesian palm oil on concerns over the country's ability to make payments in the wake of Western sanctions, trading sources in Singapore said on Thursday.

Palm oil traders in Southeast Asia, which supplies 90 percent of the vegetable oil globally, stopped taking Iranian letters of credit late last year ahead of fresh U.S. and European sanctions at the start of 2012.

The halt in palm oil supplies comes on top of payment problems for Indian rice and European grain to Iran, showing that sanctions are starting to curb the country's supply of staple food.

Indonesia supplies around 50,000 tonnes a month, or slightly more than half of Iran's needs, said the Singaporean traders, who declined to be named due to the sensitivity of the issue. Most of Indonesia's palm oil deals are done in Singapore, a trading hub for the region.

"I can confirm that Singaporean firms have stopped. We don't want to go anywhere near Iran at this moment, it is too risky," said a trader with a listed Singaporean firm that ships Indonesian palm oil cargoes to the Middle East and Iran.

Indonesia is the world's largest producer of the vegetable oil, which is used in products ranging from biodiesel to cooking oil and margarine.

A trading source from Saudi Arabia whose firm runs a 16,000 tonne a year refinery in Iran said the country's edible oil refineries were barely operating thanks to the supply cut.

"My company has a refinery in Iran and we cannot really source much palm oil these days, be it from Indonesia or Malaysia," said the Saudi Arabian trader, who declined to be named as he is not authorised to speak to the media.

"It is really hurting our business. We keep asking for supply but no one is willing to give."

Palm oil exporters in Malaysia have also stopped supplying Iran with most of the 30,000 tonnes of the food staple the Middle Eastern country typically buys from the country each month, traders told Reuters on Wednesday.

Malaysian government officials on Thursday sought to downplay the impact on the country's palm oil trade.

"Some exporters have voiced their concerns on the sanctions on Iran," Trade Minister Mustapha Mohamed told reporters. "For whatever impact coming from the sanction, their market will be compensated from other export markets."

PAYMENT DEFAULTS

Indonesia's share of the Iranian palm oil market has been rising at the expense of Malaysia, which faces slowing production growth.

Iran bought over half a billion dollars of palm oil shipments from the two southeast Asian producers in 2009, according to Iranian Vegetable Oils Industrialist Association data quoted by the Malaysian Palm Oil Council, making it the largest market in the Middle East.

Secretary general of Indonesia's Palm Oil Association, Joko Supriyanto, said two local companies, PT Musim Mas and PT Wilmar Nabati Indonesia, supply some of the cargoes heading to Iran.
"A payment default could also happen to Indonesian exporters. So Indonesian palm oil exporters have to be careful dealing with Iran importers," Supriyanto told Reuters.

Senior officials from PT Musim Mas and PT Wilmar Nabati Indonesia, a unit of Singapore-listed Wilmar International, told Reuters their firms do not directly export palm oil to Iran.

"Malaysian and Indonesian exporters may find it hard to let go of such an important market like Iran and they may try to supply via third parties. But do people want to take that risk as intermediaries is the question," said a second trader from Singapore with knowledge of the issue.

"Whatever it is, the sanctions have slowed palm oil exports to Iran, direct or indirect, to a trickle."

China may shrink Iran iron imports as sanctions bite

By Ruby Lian and David Stanway

SHANGHAI/BEIJING, Feb 8 (Reuters) - China is likely to reduce the amount of iron ore it buys from Iran from March due to concerns that sanctions may disrupt exports worth over $2 billion a year to the world's largest consumer of the raw material, traders said on Wednesday.

Iran is a political ally of China and one of its biggest crude oil suppliers. Iran was also China's fifth biggest supplier of iron ore in 2011, selling some 17 million tonnes, but traders said they expected purchases to shrink in coming months as the sanctions may disrupt shipments and payments.

"There is a huge risk ahead, and many just haven't realized it yet," said a senior executive at a Shanghai-based trading firm that has a long-term partnership with an Iranian supplier.

"It's easy for the United States to freeze our business, forcing large Chinese iron ore traders, which have large trading volumes with Iran, to be more cautious when making bookings. It's not worth taking the risk," he added.

Although Iranian ore accounted for just 2.4 percent of China's total 686 million tonne imports last year, its absence will push up prices as China scrambles for alternative supplies of the raw material used to make steel.

"Iran is one of the major sources for lower-rate iron ore. Without Iranian ore, Chinese buyers will be forced to look for more cheaper materials from Southeast Asia, Latin America, and Africa," said Han Xun, China manager with the Steel Index.

"It may also seek to buy more from dominant suppliers like Australia and Brazil."
The United States expanded financial sanctions against Iran on Monday, adding to a European Union ban on Iranian oil imports from July and sweeping U.S. measures which target Iran's central bank and foreign institutions doing business with it.

The Western sanctions are aimed at pushing Iran to end its nuclear programme, which Tehran says is meant to produce energy, not weapons. Iran, however, has refused to negotiate guarantees that the programme is peaceful.

Chinese buyers usually pay Iranian suppliers via a representative office set up in Dubai, in the United Arab Emirate, or in other countries. The money is then transferred from banks in those countries to Tehran.

The Shanghai-based trader, who requested anonymity, said the United States would find it easy to trace payments made by major trading firms to Iran.

An iron ore buyer based in eastern China's Shandong province said some of his Iranian suppliers had rushed shipments, a sign that they too were worried about potential payment problems.

"We made two bookings due to be delivered separately in early and late February, but our Iranian supplier delivered the two shipments together in early February due to concerns that they might not be able to deliver later in the month," he said.

"I expect imports from Iran to show a decline in March."

Last year, China's commerce ministry warned traders against buying Iranian ore, saying shipments were often substandard and late.

Trade, however, was up 14 percent on the year in 2011 and some Iranian sellers said that so far, it was business as usual.

"We do not think that sanctions can have any negative effect on the export of iron ore to China as we sell on the basis of telegraphic transfer in advance to our accounts in Dubai, Italy and Tajikistan," said a Dubai-based Iranian trader via email.

"Shipments are also going smoothly to China."

Another Shandong-based buyer of Iranian ore, however, said be believed several shippers were not taking Iranian cargoes.

"I've heard that more and more foreign shipping companies are unwilling to cooperate with Iran due to sanctions," he added.

Some Chinese traders said they would continue to purchase iron ore from Iran for as long as they could pay for, and receive, it because it was cheaper than other sources.

"Many Chinese traders, and miners, want to take the opportunity to buy the ore to make more money," the Shanghai-based trader said. "Though I am still making bookings from Iran, I am extremely cautious."
China buys up Saudi, Russian oil to squeeze Iran

By Judy Hua and Alex Lawler

BEIJING/LONDON, Feb 7 (Reuters)

China is scouring the world for alternative oil supplies to replace a fall in its imports from Iran, as it seeks to negotiate lower prices from Tehran, and has been drawing heavily on Saudi Arabia.

Industry sources told Reuters that Beijing had bought the bulk of an increase in crude oil supplies from top oil exporter Saudi Arabia in the last few months.

The world’s second-largest oil consumer is also importing more cargoes from West Africa, Russia and Australia to replace reduced supplies from Iran.

China is the top buyer of Iranian oil, taking around 20 percent of its total exports, but since January it has cut purchases by around 285,000 barrels per day (bpd), or just over half of the total daily amount it imported in 2011.

Saudi Arabian output reached 9.76 million barrels per day (bpd) in December, up 360,000 bpd from October, OPEC data show, and has remained near that level in January, according to a Reuters survey. Several sources in the oil industry said China has bought a good part of the extra oil.

"On average, Saudi exports went up by 200,000 barrels per day and this went to the East, overwhelmingly to China," said one of the sources, a senior executive with the trading arm of a U.S. oil company.

A source familiar with the matter, who declined to be identified by name, also said the kingdom had been supplying about an extra 200,000 bpd to China since November.

Oil traders believe Unipec, the trading arm of China’s top refiner Sinopec Corp., has been using a flexibility clause in deals, known as tolerance, to buy more oil under term contracts, especially as Saudi official selling prices in the past two months have been attractive.

"Under the current circumstances, it is necessary to use the tolerance to adjust lifting volumes," a Chinese oil trader said.

Unipec declined to comment.

Official Chinese data also show an increase in crude oil imports from Saudi Arabia in the last few months, but on a smaller scale than the rise given by the industry sources.

China imported 1.12 million bpd of crude from Saudi Arabia in December, customs data show, down from 1.17 million bpd in November. That is still up from October’s 1.07 million bpd.
"GAMBLING"

Industry sources were unsure if the trend towards higher supplies from Saudi and others would continue, once China finishes negotiations with Iran over term purchasing contracts.

Some traders suspect China's increased buying of alternatives may be a ploy to bolster its bargaining position in the supply talks with Tehran. Iran is keen to secure customers as new EU sanctions banning its oil, designed to discourage the country's nuclear programme, add to U.S. measures.

Officials from the two countries were expected to hold talks as early as this week in Beijing.

"Unipec is gambling now," said a Beijing-based oil trader. "If the Iranian side can compromise and reach a term deal, Unipec will get a large volume of crude at favourable prices, offsetting the premiums it paid to buy alternative oil over the past months."

Those alternatives include Unipec's purchase of five Russian ESPO cargoes, or 3.65 million barrels, for March loading at a premium of around $6.00 a barrel to Dubai quotes, traders said. Unipec also bought a cargo of Russian Urals crude, which will arrive in China around March.

"ESPO are all spot cargoes and are close to China. Buying ESPO is practical and easy to handle," a trader said.

As well as crude, Unipec has bought four shipments of Australian North West Shelf (NWS) condensate and Bayu Undan condensate from the Timor Sea for March to fill in for lower Iranian supplies.

A Reuters survey of oil flows from West Africa on Monday suggested Asia's imports of crude from the region are at a record high.

Even so, China still needs Iranian oil and even Saudi Arabia and the rest of the Organization of the Petroleum Exporting Countries do not have the capacity to replace it.

With production believed to be around 9.75 million bpd in January, Saudi Arabia holds about 2.75 million bpd of idle production capacity to meet any sudden shortages - less than Iran's output of 3.5 million bpd. Saudi holds the world's only significant unused capacity. "Iranian crude is important," said an official at a Chinese state oil firm, who declined to be identified. "It is not very easy to replace all Iranian crude."