# U.S. Warns Iran Against Closing Key Oil Passage

ALI AKBAR DAREINI & TAREK EL-TABLAWY, Associated Press

TEHRAN, Iran (AP) — The U.S. strongly warned Iran on Wednesday against closing a vital Persian Gulf waterway that carries one-sixth of the world's oil supply, after Iran threatened to choke off traffic through the Strait of Hormuz if Washington imposes sanctions targeting the country's crude exports.

The increasingly heated exchange raises new tensions in a standoff that has the potential to spark military reprisals and spike oil prices to levels that could batter an already fragile global economy.

Iran's navy chief said Wednesday that it would be "very easy" for his country's forces to close the strategic Strait of Hormuz, the passage at the mouth of the Persian Gulf through which about 15 million barrels of oil pass daily. It was the second such warning by Iran in two days, reflecting Tehran's concern that the West is about to impose new sanctions that could hit the country's biggest source of revenue, oil.

"Iran has comprehensive control over the strategic waterway," Adm. Habibollah Sayyari told state-run Press TV, as the country was in the midst of a 10-day military drill near the strategic waterway.

The comments drew a quick response from the U.S.

"This is not just an important issue for security and stability in the region, but is an economic lifeline for countries in the Gulf, to include Iran," Pentagon press secretary George Little said. "Interference with the transit or passage of vessels through the Strait of Hormuz will not be tolerated."

Separately, Bahrain-based U.S. Navy 5th Fleet spokeswoman Lt. Rebecca Rebarich said the Navy is "always ready to counter malevolent actions to ensure freedom of navigation."

Rebarich declined to say whether the U.S. force had adjusted its presence or readiness in the Gulf in response to Iran's comments, but said the Navy "maintains a robust presence in the region to deter or counter destabilizing activities, while safeguarding the region's vital links to the international community."

Iran's threat to seal off the Gulf, surrounded by oil-rich Gulf states, reflect its concerns over the prospect that the Obama administration will impose sanctions over its nuclear program that would severely hit its biggest revenue source. Iran is the world's fourth-largest oil producer, pumping about 4 million barrels a day.

Gulf Arab nations appeared ready to at least ease market tensions. A senior Saudi Arabian oil official told The Associated Press that Gulf Arab nations are ready to step in to offset any potential loss of exports from Iran. The official spoke on condition of anonymity because he was not authorized to comment on the issue.

Saudi Arabia, which has been producing about 10 million barrels per day, has an overall production capacity of over 12 million barrels per day and is widely seen as the only OPEC member with sufficient spare capacity to offset major shortages.

What remains unclear is what routes the Gulf nations could take to move the oil to markets if Iran goes through with its threat.

About 15 million barrels per day pass through the Hormuz Strait, according to the U.S. Energy Information Administration.

There are some pipelines that could be tapped, but Gulf oil leaders, who met in Cairo on Dec. 24, declined to say whether they had discussed alternate routes or what they may be.

The Saudi official's comment, however, appeared to allay some concerns. The U.S. benchmark crude futures contract fell $1.98 by the close of trading Wednesday on the New York Mercantile Exchange, but still hovered just below $100 per barrel.

U.S. State Department spokesman Mark Toner played down the Iranian threats as "rhetoric," saying, "we've seen these kinds of comments before."

While the Obama administration has warned Iran that it would not tolerate attempts

to disrupt traffic through the Strait of Hormuz, U.S. officials do not see any indication that the situation will come to that. Nor do they believe that Iran, which is already under increasing pressure from sanctions, would risk disrupting the Strait because doing so would further damage Iran's own economy.

Instead, the administration believes Iran is playing the only card it has left: issuing threats and attempting to shift focus away from its own behavior.

U.S. officials have not said whether there is a concrete response plan in place should Iran seek to block the Strait. But the administration has long said it is comfortable with the U.S. Naval presence in the region, indicating that the U.S. could respond rapidly if needed.

The White House has been largely silent on Iran's threat, underscoring the administration's belief that responding at the White House level would only encourage Iran.

While many analysts believe that Iran's warnings are little more than posturing, they still highlight both the delicate nature of the oil market, which moves as much on rhetoric as supply and demand fundamentals.

Iran relies on crude sales for about 80 percent of its public revenues, and sanctions or even a pre-emptive measure by Tehran to withhold its crude from the market would already batter its flailing economy.

IHS Global Insight analyst Richard Cochrane said in a report Wednesday that markets are "jittery over the possibility" of Iran's blockading the strait. But "such action would also damage Iran's economy, and risk retaliation from the U.S. and allies that could further escalate instability in the region."

"Accordingly, it is not likely to be a decision that the Iranian leadership will take lightly," he said.

Earlier sanctions targeting the oil and financial sector added new pressures to the country's already struggling economy. Government cuts in subsidies on key goods like food and energy have angered Iranians, stoking inflation while the country's currency steadily depreciates.

The impetus behind the subsidies cut plan, pushed through parliament by Iranian President Mahmoud Ahmadinejad, was to reduce budget costs and would pass money directly to the poor. But critics have pointed to it as another in a series of bad policy moves by the hardline president.

So far, Western nations have been unable to agree on sanctions targeting oil exports, even as they argue that Iran is trying to develop a nuclear weapon. Tehran maintains its nuclear program — already the subject of several rounds of sanctions — is purely peaceful.

The U.S. Congress has passed a bill that penalizes foreign firms that do business with the Iran Central Bank, a move that would heavily hurt Iran's ability to export crude. European and Asian nations use the bank for transactions to import Iranian oil.

President Barack Obama has said he will sign the bill despite his misgivings. China and Russia have opposed such measures.

Sanctions specifically targeting Iran's oil exports would likely temporarily spike oil prices to levels that could weigh heavily on the world economy.

Closing the Strait of Hormuz would hit even harder. Energy consultant and trader The Schork Group estimated crude would jump to above $140 per barrel. Conservatives in Iran claim global oil prices will jump to $250 a barrel should the waterway be closed.

By closing the strait, Iran may aim to send the message that its pain from sanctions will also be felt by others. But it has equally compelling reasons not to try.

The move would put the country's hardline regime straight in the cross-hairs of the world, including nations that have so far been relative allies. Much of Iran's crude

goes to Europe and to Asia.

"Shutting down the strait ... is the last bullet that Iran has and therefore we have to express some doubt that they would do this and at the same time lose their support from China and Russia," said analyst Olivier Jakob of Petromatrix in Switzerland.

Iran has adopted an aggressive military posture in recent months in response to increasing threats from the U.S. and Israel of possible military action to stop Iran's nuclear program.

The Iranian navy's exercises, which began on Saturday, involve submarines, missile drills, torpedoes and drones. A senior Iranian commander said Wednesday that the country's navy is also planning to test advanced missiles and "smart" torpedoes during the maneuvers.

The war games cover a 1,250-mile (2,000-kilometer) stretch off the Strait of Hormuz, northern parts of the Indian Ocean and into the Gulf of Aden near the entrance to the Red Sea and could bring Iranian ships into proximity with U.S. Navy vessels in the area.

The moderate news website, irdiplomacy.ir, says the show of strength is intended to send a message to the West that Iran is capable of sealing off the waterway.

"The war games ... are a warning to the West that should oil and central bank sanctions be stepped up, (Iran) is able to cut the lifeblood of the West and Arabs," it said, adding that the West "should regard the maneuvers as a direct message."

*El-Tablawy reported from Cairo. Associated Press writers Adam Schreck in Dubai, Julie Pace in Honolulu, Hawaii, and Abdullah Shihri in Riyadh, Saudi Arabia, contributed.*

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