

News Flash – EU Embargo Announced

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23 January 2012 – As anticipated, today the European Union (EU) imposed a ban on the import of crude oil from Iran along with a number of other economic sanctions. The reaction in pricing was largely muted as a result of having already been built into the market.

As we expected, the EU embargo will not immediately halt the flow of Iranian oil into Europe. EU foreign ministers agreed to an immediate ban on all new contracts to import, purchase and transport Iranian crude and refined oil products; however, the 27 EU foreign ministers agreed to leave existing contracts to purchase crude and refined products in place through 1 July. At the behest of Greece, who along with Italy and Spain is highly dependent on Iranian crude, the EU agreed to undertake a review of the effects of this policy before 1 May. According to EU officials, any move to reverse or delay the embargo as a result of such a review would require unanimous consent of all 27 EU members and seems highly improbable at this point.

In addition to the sanctions, yesterday the USS Abraham Lincoln accompanied by a portion of the 5th Fleet traversed the Strait of Hormuz without incident. Part of the flotilla included two US destroyers, a US cruiser as well as British and French warships. This highly publicized re-entry into the Persian Gulf by an international fleet was designed to project the West's unity with regard to sanctions and the need to halt Iran's nuclear program. A spokesperson for the British Ministry of Defence explained, "[O]n this occasion the HMS Argyll and a French vessel joined a US carrier group transiting through the Strait of Hormuz, to underline the unwavering international commitment to maintaining rights of passage under international law." It is the first transit through the strait by a US aircraft carrier since earlier this month when Iran threatened action if the USS John C. Stennis returned to the Persian Gulf after its deployment elsewhere.

As expected, Iran railed against the new sanctions imposed by the EU, calling the decision an act of "psychological warfare" and stated that such efforts would only worsen the standoff concerning Iran's nuclear program. EU officials are heralding this unprecedented scale of sanctions on Iran as an attempt to get the Islamic Republic back to the negotiation table to discuss its nuclear program. The International Atomic Energy Agency (IAEA) confirmed today that it would proceed with a visit to Iran from January 29-31 in order to address the country's nuclear program. Sources report that Iran has also confirmed the same dates for the IAEA's visit.

In addition to the embargo on oil, the EU also agreed to freeze certain assets of the Iranian Central Bank (ICB) and to ban trade in gold and other precious metals with the ICB and Iranian state entities. Despite recent news, the energy markets remained fairly calm with both WTI and Brent gaining approximately \$1.50 and \$1.00 per barrel respectively.

In light of the fact that both China and India have, to date, refused to follow the new sanctions, today's EU pronouncement adds efficacy to the West's efforts but by no means assures their success. While the EU accounts for 18 percent of Iran's oil exports, Asian countries such as China, South Korea, Japan and India still account for over 50 percent.

At present we are making a small adjustment to our near-term trading bands for WTI and BRENT -- \$95.00/105.00 and \$107.50/117.50 respectively. We will continue to monitor these and other events affecting energy markets and will be providing further commentary.

Prepared by:

Richard D. Soultanian Park Ridge, NJ USA

Lorena A. Weber Park Ridge, NJ USA

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