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Iran forces on alert as economic 'surgery' begins

Iranian security sends stern message as fuel costs rise under economic 'surgery' plan

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Security forces flooded Iran's capital in a warning against possible unrest as fuel prices surged 400 percent Sunday under plans to sharply cut government subsidies and ease pressure on an economy struggling with international sanctions.

The so-called economic "surgery" has been planned for months, but was repeatedly delayed over worries of a repeat of gas riots in 2007 and serious political infighting during the standoff with the West over the Islamic Republic's nuclear program.

But the timing for the first painful steps — just after a first round of nuclear talks with international powers and a second planned for early next year — suggests one of the world's leading oil producers is feeling the sting of tightened sanctions. And it might open more room for possible compromises with world powers, including the United States, in exchange for easing the economic squeeze.

President Mahmoud Ahmadinejad told Iranians in a nationally televised speech Saturday that it was finally time to begin trimming the state subsidies that lowered the costs of bread and cooking oil and gave Iran some of the cheapest fuel pump prices in the world. He also noted that he saw "positive points" in talks earlier this month with six nations that hold important sway over sanctions: the five permanent U.N. Security Council members plus Germany.

"Iran's top leadership is puzzled about the tightening sanctions and their long-term implications on Iran's economy. Ahmadinejad has labeled those sanctions a joke, but the Iranian people are not laughing," said Ehsan Ahrari, an analyst based in Alexandria, Virginia.

The overnight price rises — gas rising fourfold in some cases — follows upheaval in the heart of Ahmadinejad's government. Last week, he abruptly dismissed longtime foreign minister, Manouchehr Mottaki, while he was on a diplomatic mission to Africa in favor of interim replacement, nuclear chief Ali Akbar Salehi.

The move sends a message that Iran's leadership had tired of Mottaki's challenges to Ahmadinejad and sought a more unified government at a critical time. In his first public comment, Mottaki on Sunday called his blindside firing "un-Islamic, undiplomatic and offensive," according to the semiofficial Mehr news agency.

In Tehran, meanwhile, riot police took up posts around the major intersections as the subsidy cuts took effect. There were loud complaints by consumers, but no signs of the violence in 2007, when the government imposed limits on the purchase of subsidized gasoline.

Under the new system, each personal car receives 60 liters (16 gallons) of subsidized fuel a month costing 40 cents a liter (\$1.50 a gallon) — up from the just 10 cents a liter. Further purchases of gas would run 70 cents a liter (\$2.69 a gallon), up from just 40 cents.

Tehran says it is paying some \$100 billion in subsidies annually, although experts believe the amount is far lower, closer to \$30 billion. Iran had planned to slash subsidies before the latest round of sanctions took effect — Ahmadinejad and his allies have long insisted the country's oil-based economy could no longer afford the largesse.

But the latest rounds of sanctions have targeted the core of Iran's economy. Some top European and Asian companies have pulled out of the Iranian market. American embargoes also seek to block the import of pump-ready fuel to Iran — a weak point in a country with vast oil riches but a shortfall in refineries.

Angry taxi drivers complained as the price of fuel rose fourfold overnight.

"I don't know what to do," said one frustrated cab driver, who did not want to be identified for fear of retribution by authorities. "I am not allowed to increase price of my service while I am paying five times more than yesterday."

A truck driver, Mansour Abbasi, said he paid 10 times more on Sunday for natural gas to fuel his vehicle — and complained he could not compensate by hiking his own transport fees.

"If I raise my prices, people will not be able to afford it. Or they may report me," said Abbasi, 43.

Despite the grumbling, there were no reports of clashes in Tehran or other major cities such as Tabriz, Kermanshah, Bandar Abbas, Kerman and Ahvaz. One resident of Ahvaz said some taxi fares doubled.

Economists say the unpopular plan to slash subsidies could stoke inflation already estimated to be more than 20 percent.

One lawmaker said he had expected the extent of price rises overnight to happen gradually over five years.

"I am surprised. We do not know what happened," the lawmaker told The Associated Press on condition of anonymity because he was not authorized to comment. "The price of fuel was supposed to reach about international prices within the next five years and not this year."

Ahmadinejad also said his government was paying \$4 billion in bread subsidies, which will also gradually be phased out.

Ahmad Bakhshayesh, a Tehran University professor of politics, said it was too soon to gauge the public reaction to the cuts, and popular unrest could still erupt.

"We have to wait and see how inflation will affect their lives," he told AP.

Opposition websites reported an economic analyst, Fariborz Raeis Dana, was detained after claiming the subsidy cuts were intended to allow Islamic leaders to spend more money on the military and security forces. The reports could not be independently confirmed.

After Ahmadinejad announced the cuts Saturday night — calling it the "biggest surgery" on Iran's economy in 50 years — long lines of cars formed at gas stations in Tehran as Iranians rushed to fill their tanks at subsidized prices before the new ones took effect at midnight. By Sunday, the lines were gone.

Economic analyst Saeed Laylaz said the cuts were in theory a positive move since they would reduce energy consumption, which is currently costing the country a quarter of its Gross National Product.

"However it is being implemented in an incomplete fashion because it's not accompanied by a greater liberalization of the economy," he said, adding that the cuts would probably not have much positive effect.

The government says it will return part of the money obtained from increased prices to the people through cash payments. It has already paid into accounts of some 20 million families as compensation ahead of the cuts.

Every family member will now receive \$80 for to help them over the next two months.