**China says U.N. action on Iran must aid diplomacy**

By Chris Buckley

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BEIJING (Reuters) - China said on Tuesday it wanted any U.N. Security Council action on Iranto promote a diplomatic way out of the nuclear standoff, edging closer to openly backing a resolution while hedging on sanctions.

The remarks from Chinese Foreign Ministry spokeswoman Jiang Yu followed a meeting on Monday between Chinese President Hu Jintao and U.S. President Barack Obama in which, according to a U.S. official, Hu agreed his government would help craft a new Security Council resolution pressing Iran over its nuclear activities.

Jiang was not so blunt. But her comments appeared to leave scant doubt that Beijing accepts that fresh Security Council action over Iran is coming, even if China wants room to negotiate over the sanctions proposed by Western powers.

"We believe that the Security Council's relevant actions should be conducive to easing the situation and conducive to promoting a fitting solution to the Iranian nuclear issue through dialogue and negotiations," Jiang told a news conference in Beijing, answering a question about the talks between Hu and Obama in Washington D.C.

"We support protecting the international nuclear non-proliferation regime and peace and stability in the Middle East, and oppose Iran possessing nuclear weapons," said Jiang.

China has close energy and economic ties with Iran and has been reluctant to back tougher sanctions.

But China has backed past rounds of U.N. sanctions against Iran, and in New York last week five other key powers for talks on possible new sanctions.

"China seems in principle to accept that there will be a new Security Council resolution with sanctions, otherwise we simply wouldn't have discussions on a draft," said Zhu Feng, a professor of international relations at Peking University.

"But the question is what level of sanctions will be in the resolution, and that will be the focus of negotiations."

Beijing is one of five permanent members of the U.N. Security Council, each with the power to veto any proposed resolution. The five powers andGermany together make up the "P5+1" group that steers international talks on the Iran nuclear dispute.

U.S. and Chinese officials who briefed reporters after the Hu-Obama talks described a positive atmosphere on Iran, which Western powers say is seeking the ability to make nuclear weapons, contravening atomic security safeguards.

Iran says its nuclear activities are for peaceful ends.

A THORNY QUESTION

The dispute has long been a thorny one for China, which is a big oil customer of Iran and has also long been skeptical of the effectiveness of international sanctions.

Jiang did not directly answer repeated questions about whether Beijing endorsed fresh sanctions against Tehran, instead repeatedly citing China's support of a "dual track."

The "dual-track" is diplomatic shorthand for offering Tehran economic and political incentives if it suspends its nuclear enrichment, and threats of sanctions if it refuses.

But she also made clear China remains unconvinced that sanctions would transform the dispute.

"Sanctions and pressure cannot fundamentally resolve the issues," she said, referring to the Iran nuclear dispute.

China "has been and will continue participating in the Security Council's discussions seeking a diplomatic solution to the Iran nuclear issue," she added later.

Diplomats said that in a "P5+1" meeting last week China made clear it objects to a proposed ban on new investments in Iran's energy sector as part of possible sanctions.

The U.S. draft targets Iran's Islamic Revolutionary Guard Corps and shipping and other firms, and calls for a ban on the establishment of new Iranian banks abroad and new foreign bank branches in Iran.

Beijing sees Iran as an important energy supplier and trade partner and as a major strategic actor in the Middle East, where China is buying more oil.

In 2009, Iran was China's third biggest source of imported crude, behind Angola and the top supplier, Saudi Arabia.

Although the U.S. and European delegations would like a resolution adopted this month, diplomats have said negotiations could continue at least until June.

Zhu, the Beijing professor, said China would like a resolution to pass before late May, when senior Chinese and U.S. officials meet for a "strategic dialogue."

"I think that China would like something before then, if conditions allow," he said.

(Editing by Jeremy Laurence)