# Oil crisis neutralized?

by Judith Wyer

Iraq began pumping its first oil shipments since the outbreak of the Iran-Iraq war the week of Dec. 1. Though the initial exports are a fraction of Iraq's prewar 3.5 million barrels a day (mbd) level, it is expected that within a week Iraq could be producing close to 2 million barrels a day.

The resumption of Iraqi exports has already had a tempering effect on the speculative oil spot market, the habitual barometer of world oil prices. Numerous British press sources had anticipated a new round of oil price hikes at the mid-December meeting of the OPEC oil cartel, in response to the upward movement of the spot market. But Iraq's resumed exports have dampened London's expectations that another oil crisis will be the first order of business for the Reagan administration.

Because of the continued conflict with Iran, which is centered at the head of the Persian Gulf, Iraq has diverted its oil exports through alternative pipelines that terminate in the Mediterranean. Last week, Iraq resumed pumping 500,000 barrels a day through its Dortyol pipeline, which crosses Turkey. The Lebanese daily *As-Safir* reports that Iraq will soon resume exports of up to 1.2 million barrels per day through another pipeline which crosses Syria and terminates in northern Lebanon. Until recently, Iraq's traditional rival, Syria, has refused to grant Iraq transit rights for its oil exports.

## The Iranian threat

Since Iraq resumed exports, Iran has intensified an aerial bombing campaign on both Iraq's northern oil fields located near Mosul and Kirkuk, and at Iraq's small port facilities on the Gulf. The Teheran regime is doing its utmost to knock out Iraq's just-repaired pipeline network. Last week, Iranian fighters bombarded Iraq's oil export terminal at Foa on the Gulf, sparking the most intense naval battle in the two-month-old war, that culminated in a fight centered over Iraq's two largest oil offshore platforms. Unconfirmed reports indicate that the damage to the platforms was considerable.

What is at stake in the Iranian offensive against Iraq's oil installations is the survival of the powerful moderate axis of oil producers within OPEC, centered around Saudi Arabia. Since the Iranian revolution, Iraq has backed Saudi Arabia in its efforts to moderate oil prices and contain the so-called pricing militants led by Iran and Libya. The loss of 4 million barrels per day of oil exports caused by the Iran-Iraq war has set back the Saudis and strengthened the radicals.

Abdul Hadi Taker, the head of the state-owned Saudi oil company Petromin, declared this week that his country "sees no reason for a new price hike." This was echoed by the oil minister from the United Arab Emirates, Man Saeed Oteiba. Earlier, a number of OPEC producers including Venezuela and Indonesia had begun to enact small price hikes, as the spot market price for non-contracted across-the-counter oil began to climb to as high as $42 a barrel. Historically, OPEC members have raised oil prices in retaliation for the oil companies' speculative bid-ups in the selling price of spot market oil during periods of shortage such as the Iranian revolution and most recently, the Iran-Iraq war.

Saudi Arabian Oil Minister Zaki Yamani warned last week that the consuming nations should draw down their massive stocks of crude oil instead of resorting to the spot market for oil lost as a result of the Gulf war. Since then, the European Community officially agreed that its nine members would comply with that demand. That move, plus the impact of Iraqi exports, has had a substantial effect in driving down both the price of crude oil and petroleum products on the spot market.

Oil industry sources indicate that if Iraq can sustain its exports, it is unlikely that OPEC will opt for a major price hike at the Dec. 15 meeting in Bali, Indonesia. Speaking in London Dec. 3, Yamani predicted that individual price hikes may occur, but they will be relatively small, since there is still a net oversupply of crude on world markets. With global demand at a six-year low, market conditions are not ripe for a major price increase.

But Iraq's position is still vulnerable. Iran is within range of again knocking out its Turkish pipeline, and Iran's ally Syria could at any minute renege on its agreement to allow Iraqi oil to traverse its territory. Washington sources estimate that should this worst-case scenario come to pass before the end of the year, a new oil-pricing spiral will occur in early 1981. One source predicted that without Iraq, Saudi Arabia cannot hold the line against the price hawks in OPEC.

Just after the outbreak of war between Iran and Iraq, Saudi Arabia raised its production by 1 million barrels per day to a record 10.5 million barrels per day to offset the shortfall. The Saudis have since attempted to get other nations of the Gulf to follow suit. But the smaller Arab oil producers have been reluctant for fear that the Khomeini regime would retaliate. Two weeks ago, Iranian fighters strafed Kuwaiti territory near Iraq's border. And since then Iran has repeatedly warned that it is prepared to retaliate against any Arab state in the Gulf supporting Iraq in any way.