The oil weapon in the Gulf war

Judith Wyer analyzes threats to the finances, diplomacy, and even the oilfields of Saudi Arabia, Iraq, and their partners.

The dwindling world oil markets have become an arena for the rivalry between the moderate Arab states of the Gulf supporting Iraq and the British-backed radicals allied to Khomeini's Iran in the Persian Gulf war.

By drastically undercutting the price of oil charged by Saudi Arabia and its neighboring emirates, Iran is hoping to erode their oil income and impede their ability to continue to fund Iraq's war effort. Already having provided up to $20 billion to Iraq, the Gulf states are under pressure to extend further financial aid following Iran's push-back of occupying Iraqi troops in late March.

The Gulf states have already decreased oil exports substantially, which has cut into revenue. The secretary general of OPEC Mana Said Oteiba announced OPEC exports plunged from 17.5 mbd to 18.8 over the last month, nearly half OPEC's total exports from the record year of 1979. Now these states are looking for ways to both maintain their development budgets and aid Iraq; they are considering liquidating certain foreign assets in order to avoid going into deficit.

For Saudi Arabia and its neighbors, supporting Iraq is an urgent security issue. They view the fight against Khomeini as an integral part of the Arab-Israeli conflict, since Israel is well known to be Iran's chief military backer. So concerned is Saudi Arabia over the alliance between Khomeini and Israel's Menachem Begin that late last month the chief of the Saudi Arabian Monetary Authority (SAMA, the Saudi central bank) sent a warning to Washington urging the United States to restrain Israel's support of Iran or face the prospects that Saudi Arabia will withdraw funds from U.S. banks.

In alliance with Britain, Iran has been dramatically underselling Saudi Arabia and other Gulf states by as much as $9 a barrel not only to generate badly needed oil income but also to break Saudi Arabia's effort to hold the OPEC benchwork price at $34 a barrel. As a result of Iran's drastic price-cutting, Iran is thought to be selling up to 1.3 million barrels a day, ironically making it the second largest exporter of oil after Saudi Arabia in the Gulf.

Just before the OPEC meeting in late March, the British National Oil Company provocatively lowered its oil price by $6.50 a barrel to $31 a barrel, a move immediately matched by Iran and Libya. The British—who along with Israel were the principal force installing Khomeini—are actively conspiring to achieve the objective voiced in Teheran: overthrowing Iraqi President Saddam Hussein. As *EIR* has documented previously, Britain is one of the chief clandestine Western sources of arms to Iran.

It is no secret in oil-industry circles that both British Petroleum and Royal Dutch Shell maintain a priviledged connection with the Khomeini regime. Months after the 1979 Iranian revolution both companies signed small but politically important marketing contracts with Iran to the exclusion of any American companies. Exactly how much support they are supplying to Iran's current bid to sell crude is not known; Iran is reported to have adopted some extravagant measures to sidestep the $6-a-barrel insurance fee for tankers taking delivery of crude within the war zone at Kharg Island, a factor which up until recently discouraged potential buyers of Iranian crude. The National Iranian Oil Company is said to be chartering tankers to move the oil outside the war zone to expedite sales.

Not only is Iran selling at cut-rate prices, but it is transacting sales through barter agreements with other governments in the developing sector and the East bloc, and dumping large volumes of crude on the spot market to attract customers away from other OPEC producers. Recently Iran was reported to have sold nearly half a million barrels a day to West German and Japanese firms at $25 a barrel on the spot market.

Isolating Iraq

Iran has enjoyed help from its Arab ally, Syria, in undermining Iraq's ability to export crude and generate badly needed income. In the first week of April, the regime of Syrian president Hafez al Assad announced it was shutting down a pipeline which carries Iraqi oil to the Mediterranean via Syria and Lebanon. Assad made the move following establishing a series of agreements with Iran in which Syria will barter food for Iranian oil imports which began that same week to replace the Iraqi oil supplies.

The Syrian move leaves Iraq with only one remaining outlet for its exports, a pipeline through southern Turkey, which has only a 600,000-barrel-a-day maximum capacity. This pipeline has repeatedly been bombed by terrorists; that area of southern Turkey is dominated by Israeli-intelligence infiltrated Kurds.

A source with close ties to the Israeli and Iranian networks conducting arms purchases for Iran insists that the Turkish pipeline will soon be bombed again, leaving Iraq no outlet for oil exports. The closure of the Syrian pipeline is estimated to cost Iraq $5 billion in yearly oil receipts.

Immediately after Syria took the action, Iraq requested that the Gulf states consider increasing financial aid to Iraq and halt all aid to Syria. Unconfirmed reports indicate that on April 20 the six-nation Gulf Cooperation Council met in Riyadh to weight the Iraqi request, and approved a proposal submitted by Kuwait to immediately suspend the annual $1.8 billion in aid grants to Syria.

Bomb the oilfields

Should the Turkish pipeline be destroyed, this source speculated that Saddam Hussein will be left "with no recourse" but to make a move neither side in the Gulf war has up to the present wanted to make; bomb the oilfields of his opponent. Throughout the 19-month war neither Iran nor Iraq has ventured to bomb the other's oilfields for fear of immediate retaliation against its own oil installations. But in the event that Iraq finds itself with no way to export oil, intelligence analysts see the likelihood of oilfield bombings a new dimension of an expanded Iran-Iraq war.

These sources say that the Saudis and their allies in OPEC would welcome knocking out Iran's oilfields because it would help Saudi Arabia in its drive to firm up oil prices. But the danger is that Iran would retaliate not only against Iraq's oilfields but also against those of Gulf State, probably Kuwait. Over the past year and a half, Iran has twice strafed Kuwait in retaliation for Kuwait's logistical backup for Iraq. More recently, Iranian fighters shelled a Kuwaiti oil pumping station, delivering a warning that Kuwait might become a target for Iranian air strikes.

The long-term military objective of an extremist faction within the Israeli military led by Defense Minister Sharon is to bomb the Saudi oilfields. Whether such an objective is carried out by an Israeli deployment or an Iranian one makes little difference.

Within Iran, there are reports that a ultra-right faction of the Shi'ite clergy associated with Ayatollahs Shirazi and Golpayagani of the Hojatai grouping are already engaged in a bloody power play to take control of Iran once Khomeini dies. These mullahs are said to have no compunctions about engaging in military adventures against the oil fields of the Gulf, particularly the Saudi oilfields, manned by Shi'ite Muslims who have for years been a target of Khomeini's call for revolution in Saudi Arabia.

The extremists in Israel and Iran are thus on the way toward fulfilling the requirements of certain long-range schemes of British intelligence. Crises in the Gulf are expected to offer the opportunity for British military forces to intervene and re-establish Britain as the colonial overlord of the Gulf.

According to a high-level French intelligence official, Britain is committed to reversing its policy, adopted in 1967, of evacuating the Gulf and relinquishing its colonial status there, an evacuation officially completed in 1971. A key component of this scheme is to continue to discredit the United States as either a viable military power in the region or mediating force in the Arab-Israeli conflict. The continued provocations by Israel against the Arabs, provocations like the April 21 attack on Lebanon, are primarily the work of Sharon and his crony, Chief of Staff Rafael Eytan. These actions are calculated to blacken America's standing with the Arab world and increase radical opposition to Washington's traditional Arab allies, above all to the Saudi regime under Crown Prince Fahd.

Breaking Aramco

The Anglo-Iranian drive to undercut Saudi Arabia in world oil markets is meanwhile aimed at putting strain on the relationship which exists between the four American major oil companies which comprise the Arabian American Oil Company—Exxon, Socal, Texaco, and Mobil—and the Saudi regime. These companies are forced to market Saudi oil at $34 a barrel when the spot market, through the manipulations of Britain and Iran, is leading the downward trend in prices.

In the short term, no one expects any serious strains to develop between the American Majors and Saudi Arabia. Riyahd's strategy appears to be take another sizeable cut in production as early as the end of April, if necessary. Riyadh is betting that the current oil-company de-stocking will end by late summer, and is therefore prepared to hold its oil output to as low as 6.5 million barrels a day to keep the OPEC official price firm. This strategy is in part guided by the needs of other OPEC producers which are desperately cash-short, such as Nigeria.

Many New York-based oil analysts concur that Saudi Arabia and its neighbors will find a way of funding Iraq through this stormy period and maintaining domestic budget requirements. The April 15 issue of *Mideast Report* stated that the SAMA is selling gold: this may be one facet of Riyadh's strategy.