

The ISIS led war in Iraq keeps oil prices high and protects OPEC interests

✘ The Saudis have not liked the United States' re-orientation of strategic interests in the Middle East – thanks to its greater energy autonomy. Syria and Iran have been at the heart of this re-orientation of American priorities – a shift that the Saudis might well describe as a 'betrayal' from what has been their historical ally in the Middle East. Obama's decision not to intervene militarily against Syrian President Bashar al-Asad has left the Saudis more isolated as Washington chose to follow Russia's plan for the elimination of Syrian chemical weapons. And of course, the rift between Riyadh and Washington over Syria has only widened by the possibility of talks between the U.S. and Iran over how to contain the threat of the Islamic State (formerly known as ISIS), a radical Islamic group, which has declared an intent to establish a 'Caliphate' (an Islamic State) stretching from West Africa to Central Asia. Meanwhile, Saudi Arabia has been producing oil at rates not seen since the 1970's.

Saudi Arabia's Fellow Gulf Cooperation Council members Kuwait and the UAE are also producing at record levels, in order to compensate for the sharp drop in production in such countries as Libya, where the pervasive anarchy and emergence of militias at the expense of an ever weaker central authority, has forced massive drops in oil production. The Saudis have used their oil supremacy – at prices that remain stubbornly above USD 100/barrel – to back up their aggressive, and disruptive, regional policy. The International Energy Agency has upgraded the Kingdom's oil output capacity from 12 million to 12.5 million bpd thanks to Saudi Aramco's Manifa offshore field. The Saudis are producing at over 10 million bpd, while Kuwait and UAE are producing at some 2.8 million barrels a day

(bpd). By happy coincidence, Venezuela, Algeria and Angola have also been producing at lower levels while non-OPEC oil supplies have also dropped, leaving China and India wondering who might be able to sustain the kind of levels they need to grow in the mid and long terms.

This has only served to boost their reliance on Sheikhs of Arabia, who will in turn exploit it to their strategic advantage. The Saudis have better technology allowing them to increase production further while its fellow Gulf rivals have no proven methods to increase extraction for at least the remainder of this decade. Saudi Arabia is China's main oil supplier and as the European Union starts to show signs of an economic and industrial recovery, the Kingdom's influence can only grow. This raises the paradox of Saudi foreign policy and its strongest domestic 'Awakening' fears. Why would the Saudis be so keen to sponsor the most radical and reactionary of fundamentalists in Syria?

There is, in effect, an 'oil war' between the rising Shiite Iran and Iraq have been waging against Saudi Arabia, OPEC's leader and point of reference for Sunni Islam in order to increase oil and gas production to weaken the Saudis' geopolitical influence. The "oil war" of the Shiites could be a game changer in the battle for supremacy with the Sunnis in the Middle East.

In recent years, and certainly in the past few months, the key events in the Middle East have revolved much less around peace-building between Israel and the Palestinians and more on energy and military-strategic considerations related, in some way, to the rivalry between the Iranians and the Saudis. The Iranians have been especially determined to disrupt the old balance that has kept them in isolation for years by securing better relations with the West while maintaining a nuclear program to please hardliners such as Supreme Leader Ayatollah Khamane'i.

After decades of isolation for Iran – and wars for Iraq – that have stunted both countries' growth and development it is not surprising that both countries consider the increase of oil and gas exports to serve as the primary tool to resume growth. But oil in the Middle East is not just a source of energy: it is a strategic weapon. Not long ago, the Saudis, for example, triggered a collapse in oil prices in order to weaken then Iranian President Ahmadinejad foreign and nuclear policy ambitions. Similarly, as Iraq and Iran were starting to increase oil production this year, this would have hurt Saudi Arabia, which needs high oil prices in order to maintain expensive social welfare programs that were expanded in scope and value to avert the effects of the 'Arab Spring' revolts.

In the new long-term energy scenario, characterized by oversupply, new oil powers have emerged beyond OPEC as a result of new technology allowing for the tapping of unconventional sources such as shale gas and oil (Brazil, Kazakhstan). At the same time, economic growth has not returned to pre 2008 crisis levels, leading to excess supply and an automatic weakening of Saudi Arabia. In the Middle East oil States, including Iran (but much less so than Saudi Arabia) oil export revenues are essential in maintaining the social order and the massive welfare benefits. Oil revenues also give these states the necessary 'currency' to play their regional and international political games from Syria to Lebanon, Egypt and beyond.

The emergence of ISIS, therefore, has been something of a boon to Saudi Arabia and to OPEC. Cynics and conspiracy theorists may even go as far as suggesting that some Saudis have aided ISIS, helping it expand beyond the Syrian borders, where the group acquired a great deal of combat experience, to Iraq in order to prevent or slow down, the rise in Iraq's oil exports. Indeed, while Iraq is producing at a rate of three million barrels a day (bpd), the government said it wants to boost production to about nine million BpD, which is just about on

par with the Saudis. Iran and Russia, meanwhile, want to establish a pipeline linking the oil and gas fields of Iraq and Iran to the Mediterranean via-Syria. ISIS has achieved a number of military successes in Iraq, taking Mosul and Tikrit, reaching the gates of Baghdad. ISIS was stopped from accessing oil by the Kurds' mighty 'Peshmerga militia, which has maintained the safety of hydrocarbon resources of Kirkuk and the surrounding area.

The price of oil has increased but should the expanding ISIS conflict extend to the areas that are richest in hydrocarbons – far north and far south (where the Russians have interests...) the increases will be far sharper than at present. In fact, ISIS will be trying to move south because that is where the richest oil reserves are located; some 2.5 million BPD, exported toward Asian ports via the Persian Gulf from Basra. If war reaches Basra, cutting oil production and supply routes, it would leave a 2 million BPD shortfall that would require the International Energy Agency to take action. Some oil companies, fearing the safety of staff and related security repercussions, may act as happened in Libya: they will leave even before the war reaches them. Iran will, suddenly gain more negotiating currency, as it will be called to make up some much of the shortfall but this will also require the Americans to negotiate more seriously with Iran over the nuclear issue and ending most of the sanctions targeting Iran. Both steps are necessary in order to restore Iranian oil exports, and promote hydrocarbon industry investment, toward the West and beyond.