

# Iran behind the Oil Price Hike

By MERLIN LAFLEUR, 2010/01/05

When oil prices were dropping after the Dubai crisis, Iran took it upon itself to save the price of oil. After all, Iran has the third largest oil reserves in the world. But how did it go about doing it? By a small symbolic gesture of planting the Iranian flag on a low productive oil field in Iraq.

On December 17, Iranian soldiers seized an oil well in Al-Fakkah in the Maysan province, North of Basra. Al-Fakkah situated about 200 miles southeast of Baghdad is the seat of one of Iraq's largest oil fields with reserves of about 1.5 billion barrels. This region is a shared border between Iran and Iraq, claimed by both countries as theirs. The dispute, in fact, has been going on for years since the 1980s- after the end of the eight year war.

Any conflict here-or just rumors of it-and the world jumps to the conclusion that oil supplies from the region would be affected. Already, Iraq was opening up its oil fields for foreign companies after thirty years. There were two bids for oil in Iraq this year; the first bid didn't get through as investors weren't keen on oil from disputed areas. The second bid took place just a week before the incursion, with many oil companies present in Baghdad bidding on oil contracts. And, contracts were awarded to seven of the 15 oil fields. Then Iran grabbed headline space with its actions in Iraq to raise the price of oil.

Among the issues that worked in favour of Iran are:

- Oil prices are extremely volatile. Unlike conventional demand and supply fluctuations, oil responds quickly to risk factors like war or war like situations even if the supply is steady.
- Iran's position in the oil world- Iran is a large player in the oil business being the fourth largest producer of oil in the world
- When Iran does something, the world takes notice
- Details emerging from the place would be at best sketchy as journalists are barred from the disputed territory In short, Iran didn't have much work to do. The stage was set and it only had to make people believe of 'some' tension in the region.

Per se, it seems, Iran was able to pull it off too. Most of what was reported in the media hinged on the inference that Iran was asserting its supremacy in the region-the prevailing border dispute helped too. And it was precisely that fact to which the market and investors reacted to. **As the news spilled across the globe, oil prices rose.** Iran played the role it sought all along-innocence. Amir al-Rashadi, a spokesman at the Iranian Embassy in Baghdad, said, "We don't have any information about this, but we suspect it is all lies".

According to officials in Iraq, an emergency meeting of the National Security Council was convened with the Iranian Ambassador called in to lodge an official protest. Security forces and police reinforcements were deployed in the area by Iraq. Iraq behaved as if it knew the plan of

Iran. Iraqi Government spokesperson al-Dabbagh told Al-Arabiyah TV "Again, we ask Iran to be committed to the good relations that they announced with Iraq and its nation, and to withdraw its forces immediately".

But soon, Iranian military claimed that it had not violated Iraq's sovereignty as the area was Iran's territory with the statement to Al-Alam satellite television "Our forces are on our own soil and, based on the known international borders, this well belongs to Iran."

Iran has better political, cultural, religious and economic relations with the current Shiite government in Iraq. Of course, indeed, there was political tension in the region after the recent election and over the country's nuclear program. If Iran wanted to divert attention from the crisis at home, it would have done something more dramatic, not a meek incursion like this. Anybody's guess then that this was a well planned 'news' to hike the price of oil.

Meanwhile, the US was laidback in its response. The US government in the past had accused the Iran regime of funding and sending across Iran fighters into Iraqi soil. Adm. Mike Mullen, America's top military official said the oil well incident must be resolved between Iran and Iraq, and there were no plans by the United States to intervene. U.S. Ambassador to Iraq Christopher Hill's words on Iraqi response to Iran incursion "It does speak to the overall view here that they are not going to be pushed around by Iran".

Of course there were doubts raised too. Edward Morse, head of economic research at LCM Commodities LLC said, the border "is not clearly delineated, is in desert and is in dispute anyway." He added, "The possession of an unproductive well seems a strange thing on which to hang a national crisis".

As of December 20th, Iranian forces are said to have withdrawn from the region. According to Reuters, a spokesman of Iraqi government is said to have confirmed it saying, "The Iranian flag has been lowered, and Iranian troops have pulled back 50 meters, but they have not gone back to where they were before. The Iraqi government asked for the troops to go back to where they were".

A symbolic gesture on a low productive oil field but has given huge financial relief for the Middle-East. If you believe this is all some silly hypothesis, check out the price of crude today-\$81.74 a barrel. The extent countries go for increasing the price of oil..