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Oil and the tinder box of Iran-Saudi rivalry

Nick Butler [Author alerts](#)  Oct 05 05:30 [Comment](#)

Iranians protest against Saudi Arabia after the hajj stampede © Getty Images

Oil prices are now 50 per cent lower than they were a year ago, and less than 40 per cent of their peak in 2012. Worldwide, there is a continuing surplus of supply over demand of around 2.5m to 3m barrels a day. This is despite the loss of exports from Libya and two bloody wars – the first against the Islamic State of Iraq and the Levant (Isis) in Syria and Iraq, the another against the Houthi rebels in Yemen. Those two wars, which do not directly affect any significant oil producing areas, are proxy conflicts for the rivalry between Saudi Arabia and Iran. Now, however, there is a growing risk of open war between Riyadh and Tehran.

Oil facilities and exports would inevitably be primary targets and in those circumstances a price spike would be unavoidable. The question is whether such an escalation can be prevented.

Relations between the Kingdom of Saudi Arabia and the Islamic Republic of Iran have never been close. The conflict is partly religious, partly economic and territorial. Both want to be the clear regional leader. In recent months relations have deteriorated. The latest trigger is the death of 767 Islamic pilgrims at the annual hajj in Mecca. The dead included an estimated 169 Iranians. Since the tragedy – caused by a stampede at a bottleneck as about 2m took part in the journey – Iran's leaders have used the event as a stick to beat the Saudi authorities in general and the royal family in Riyadh in particular. The failure of the Saudis to return the dead Iranians to their own country has provoked an unspecific commitment of "retaliation" from Iran's supreme leader Ayatollah Khamenei.

The heightened language indicates the tension that pervades the region. The situation is comparable to Europe in the months before the first world war, and equally dangerous.

Last week also saw the Saudis intercepting a boat travelling from Iran to the north of Yemen carrying missile launchers and anti-tank shells for the Houthi rebels who continue to resist Saudi air strikes. Some 2,000 Yemenis have been killed since the ousting of president Abd Rabbu Mansour Hadi by

Houthi forces this year, including 200 reported to have died in a Saudi bombing attack on a wedding party at Mocha two weeks ago. As you would expect, every detail of every incident is disputed.

Three factors have combined to create this dangerous situation.

- First, Iran is liberated by the nuclear deal reached with the US and the other external powers. That agreement has opened an opportunity for Tehran to build and strengthen its network of links across the region from Lebanon and Syria to the Houthis and the Shia communities in the Gulf and elsewhere.
- Second, the Russian intervention in Syria reinforces the position of President Bashar al-Assad and the Iranians and demonstrates more clearly than ever the indecisiveness of the US-led coalition against the Islamic state. The active engagement of the French is laudable but the UK seems unable to decide whether to get seriously involved, while the US air campaign is targeted against Isis but Washington has so far failed to give decisive backing to any of the factions competing to oust Mr Assad.
- Third, and partly as a consequence of these first two points, the Saudis under a new king have decided that they have to protect their own interests. Relying on the US is unproductive, as they found when Washington ignored their concerns over the Iranian deal. The Saudi policy of assertiveness includes direct action against the Houthis in Yemen and extends to the continuing attempt to take control of the oil market to protect their market share.

Oil would be a primary target if the situation deteriorated. The facilities and tankers through which Saudi exports almost 7m barrels a day are vulnerable. So is onshore production in an area with a substantial Shia community. The electronic control systems that have been hacked before could be targeted again. Nowadays, oil flows to the east from the Gulf rather than to the west. Three-quarters of the oil flowing through the Straits of Hormuz each day turns east. But the global market is a single entity and the impact of any disruption would soon spread.

An open war is not inevitable. The two countries have managed to live next to one another for most of the past century. But the abusive rhetoric is whipping up real risks. In the past, the US might have been able to hold the ring but American political power in the region is weaker than it has been for many decades. The US has a number of huge military bases in the area, as Jessica Matthews points out in an elegant essay in the latest issue of the New York Review of Books. There has been no actual withdrawal, but talk of “leading from behind” – as Republican senator John McCain claimed recently – and the removal of most US troops from combat missions in Iraq and Afghanistan suggests that a strategic retreat after two lost wars is underway. All this means that any solution will have to come from within the region, and in particular from the Saudis and Iranians themselves.

The two key figures in all this are President Hassan Rouhani, Iran’s relatively moderate political leader, and Mohammed bin Salman, the Saudi defence minister who is also deputy crown prince and the son of King Salman. On all rational criteria neither have an interest in an open war. Mr Rouhani has just secured the nuclear deal and needs to consolidate his power through a period of economic renewal. MbS (as he is widely known) needs to consolidate his position rather than risk everything

on a conflict that the powerful and ruthless Iranian armed forces could easily win. Rationally, there should be no war between the two countries. But rationally a shot in Sarajevo in the summer of 2014 should not have started a war across a whole continent. The Middle East is tinder dry. There is no guarantee that rational outcomes will prevail. Oil traders and consumers should be prepared. This could be a very volatile autumn.

Tags: Ayatollah Khamenei, energy, energy security, FT, Houthi, Iran, Iraq, Isis, Islamic State of Iraq and the Levant, Mecca, Nick Butler, oil prices, Saudi Arabia, Syria, UK, US, Yemen

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