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### **IRAQI OIL SALES OR AESOP REDUX?**

In the heralded Aesop fable the shepherd boy cries wolf once too often and the villagers stop coming just when the wolf actually shows up. Unfortunately, the oil markets do not have the luxury of guessing when Iraqi oil (substitute wolf here) will show up. They must believe each and every report. Failing to do so would be too costly to inventory holders. Yet, the fact that Iraqi oil may be coming to the market is less interesting than its timing.\* What has happened in the past month to apparently speed the process along?

I believe that there are four things that have converged to move the process forward. The first two are interesting but not dominating.

- The U.S. Presidential election is over. It's no longer a Presidential campaign issue.
- OPEC meets this Wednesday to discuss quotas. The prospects of Iraqi's early return to the markets nails shut the possibility of an OPEC quota increase.
- U.N. Secretary General Boutros Boutros Ghali's strong desire to get this done before his term expires next month might have convinced Iraq to accept while he (Ghali) could monitor the process.
- And probably the most important reason for the U.S.'s willingness to approve the price formula even before Iraq dropped its other demand has to do with *Turkey*.

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\* We've assumed for sometime that Iraq's oil would return to the markets in 1997 but closer to six months from now not 45 to 60 days.

An important understanding between the U.S. and Turkey coincidentally comes up for review next month. Operation Provide Comfort (OPC). The U.S. uses facilities in Turkey to monitor Iraq. Renewal of this agreement is critical to the U.S. Yet, Turkey has been very upset with the U.S. and the economic pain that Turkey has felt as a result of the shutdown in the oil pipeline has only exacerbated relations between the two countries. Turkey may have been holding OPC Agreement hostage here. In addition, while it didn't get serious attention here, Turkey threatened this month that they were prepared to "go it alone" and allow Iraqi oil to flow through its pipeline no later than year end.

If this was not an idle threat then the U.S. had little to lose by not appearing to be a roadblock and throwing the issue back to Saddam (maybe he would miscalculate one more time). The "surprise" therefore was the speed in which he has apparently "agreed" to the terms. Boutros Boutros Ghali might have had a hand here in convincing Iraq to accept while he still presided over the U.N.

P.S. An interesting sidebar to this story is the report that the U.S. is evacuating some 5,000 Kurds from Northern Iraq because the U.S. can't guarantee their safety. While these are individuals who worked for U.S. and not U.N. sponsored organizations it does suggest a certain incompatibility of pulling individuals out of the region because you can't guarantee their safety just at the same time you approve the sending into the same region other inspectors to monitor 986.

P.P.S. Remember "It ain't over till it's over".

Larry

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