

THE WEEK IN ENERGY: THE THREAT TO OIL EXPORTS FROM THE GULF*

Saudi Arabia said on Monday that two of its oil tankers were among the four commercial vessels that were attacked off the coast of the United Arab Emirates over the weekend. The attacks appeared to have used underwater drones each carrying 30-50kg of high-grade explosives, and there was a high likelihood that the attackers were helped by Iran's Islamic Revolutionary Guard Corps, according to a report by Norwegian insurers seen by Reuters on Friday.

Then on Tuesday Saudi Arabia reported that drones had attacked pumping stations on its east-west pipeline, which runs from its eastern oilfields to the port of Yanbu on the Red Sea. Houthi rebels fighting against the Saudi-backed government of Yemen said they launched the attacks, saying they were a response to "the crimes [the Saudis] are committing every day against the Yemeni people". Al Jazeera television commented that the drone strikes showed a "new level of sophistication" for the Houthis.

Through the attacks and the threats of retaliation and counterretaliation, oil markets have remained remarkably quiet. Brent crude was trading at about \$72.20 on Friday, less than \$2 above its level at the start of the week. Khalid al-Falih, Saudi Arabia's energy minister, described the strikes on tankers and the pipeline as being aimed not only at the kingdom, but also at "the security of world oil supplies and the global economy". The Strait of Hormuz has been described by the US Energy Information Administration as "the world's most important chokepoint" for oil supplies, a route for almost 20 per cent of global consumption.

However, history has shown that it has to be a very large disruption in the region to have a significant impact on world oil markets. It is not in the interests of any of the countries in Gulf region to have their principal export route cut off, and despite some sabre-rattling from Iran, none of them really want to see the strait closed. The US Naval Institute magazine noted in 1988 that the "tanker war" then being fought between Iran and Iraq as part of their wider conflict "has yet to significantly curtail Gulf oil exports or substantially increase world oil prices", because only a small minority of shipping traffic in the region was targeted. Despite the US attempt to use sanctions to cut off all Iran's oil exports, some crude does seem to be getting through still.