

Minnesota Public Radio: Marketplace

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Commentary:

Arguments for increasing Iraq's oil production to unbalance OPEC

DAVID BROWN, anchor: For those keeping count--and who isn't these days--pump prices are at a new record high. Today, AAA reported a national average for regular is a buck 77 a gallon. That's 2 cents higher than the previous record set last summer. Not only has our historic driving season yet to start, but just last week OPEC said it's tightening the spigots. That leaves drivers and policy makers wondering what to do about rising gasoline costs. The question is fueling a debate between our dueling commentators, too. Yale Professors Barry Nalebuff and Ian Ayres.

Professor BARRY NALEBUFF:

The president just has to think big. Remember, by virtue of occupying Iraq, we're now part of OPEC. Iraq could increase its production to make up for OPEC's cut. An extra million barrels a day, that would do it.

Professor IAN AYRES:

But is that possible? I thought Iraq was struggling just to produce any oil.

Prof. NALEBUFF: It wouldn't be easy. Experts tell us it would cost 5 billion, but it would be worth it.

Prof. AYRES: Wait, that's three times what we've budgeted to fix up their oil fields.

Prof. NALEBUFF: Ian, think of it this way, oil is about \$30 a barrel. An extra million barrels a day is \$30 million a day, or an extra \$10 billion a year for Iraq. This investment would pay for itself in six months.

Prof. AYRES: This is a giant 'I told you so.' The US invaded Iraq just to take over its oil fields?

Prof. NALEBUFF: Ian, we're not stealing the oil. Iraq gets the money.

Prof. AYRES: Yeah, but instead of depleting our strategic oil reserves, you're asking Iraq to deplete theirs.

Prof. NALEBUFF: Poppycock. Our strategic reserve is tiny. Iraq has over 120 billion barrels of proven reserves. An extra million barrels a day means each

year Iraq would be using up just 3/10 of a percent.

Prof. AYRES: Barry, but you're still stealing from their future.

Prof. NALEBUFF: Iraq desperately needs money now. What better time for them to dip into those billions of barrels they have in the sand?

Prof. AYRES: We're still forcing them to sell more oil than they want, and to sell it on the cheap.

Prof. NALEBUFF: Actually, we're just getting them not to sell it at a criminally high price. Iraq should increase its production so the price drops just to the competitive level. OPEC has artificially inflated the price, and we don't have to support OPEC at our expense.

Prof. AYRES: Iraq's on the verge of anarchy. These pipelines would be awfully attractive bomb targets.

Prof. NALEBUFF: Security's a real issue. But the American authorities have done an impressive job of protecting production. They're now back to pre-war levels.

Prof. AYRES: I'm no fan of OPEC, and I like the idea of breaking it up, but wouldn't this be a disaster for the environment? Cheap gas means too many SUVs.

Prof. NALEBUFF: Ah. If OPEC prices come down, this gives us a chance to put in a gas tax, and thereby keep pump prices the same. Instead of the money flowing to the Saudis and their buddies, we get to keep some of it.

Prof. AYRES: A tax on gas will never fly. Right, John Kerry?

Prof. NALEBUFF: Actually, the last time OPEC fell apart and oil prices plummeted, a certain Wyoming congressman named Dick Cheney proposed just that. To prop oil prices and protect his buddies, he wanted to tax imported oil.

Prof. AYRES: OK. Let's destabilize OPEC, help Iraq and give the world's economy a much-needed boost.

Prof. NALEBUFF: In New Haven, this is Barry Nalebuff...

Prof. AYRES: ...and Ian Ayres for MARKETPLACE.

BROWN: Barry and Ian teach at Yale University. They collaborate on the book, "Why Not?"