

The role of petroleum in South Korea's engagement in Iraq

The South Korean contingent stationing nowadays in the north part of Iraq inhabited by Kurds is the third biggest one when taking into consideration the amount of people, just after the American and British foreign squads stationing on the territory of this country. This fact is not influenced by issued in the last days of December 2005 decision of South Korean parliament about withdrawing, with the beginning of 2006, of a thousand of soldiers from the official contingent of three thousand two hundred people. What is more, a comment made by the president Roh Moo-hyun, declaring the presence of remaining Korean soldiers in Iraq to be as long as it will be necessary +do not promise any changes in the near future.

It is extremely important to explain the reasons for so active engagement of government in Seoul in the Iraq operation, which cannot be explained only by familiarity in relations between America and Korea, and political as well as military co-operation of both countries. Similar relations join the United States with many other countries. The most adequate example here is Taiwan, but its government has not sent any soldiers to Iraq.

To establish the reasons of very active engagement of government in Seoul into military operation on the territory of Iraq we must pay attention to the case of supplying South Korea with oil. The warranty of supplies and price were one of the basic conditions to maintain a fast GDP growth in the country.

Despite the vast application of modern energy- saving technologies in South Korea and small, in comparison to other highly developed countries, participation of oil in energy balance of the country, it belongs to the biggest consumers of this resource in the world, ranking eighth before such European powers as Great Britain or France.

World Petroleum Consumption, 2000-2003 (Thousand Barrels per Day)

Region/Country	2000	2001	2002	2003
Canada	2 027,0	2 042,9	2 079,4	2 193,3
United States	19 701,1	19 648,7	19 761,3	20 033,5
France	2 000,5	2 050,7	1 982,8	2 059,8
Germany	2 771,8	2 814,6	2 721,2	2 677,4
United Kingdom	1 757,7	1 724,2	1 767,7	1 722,4



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	2 578,5	2 590,2	2 636,4	2 675,0
	4 795,7	4 917,9	5 160,7	5 550,0
	2 127,4	2 183,7	2 263,4	2 320,0
Japan	5 607,0	5 530,0	5 464,6	5 578,4
Korea, South	2 135,3	2 132,0	2 149,2	2 168,1
World Total	76 945,9	77 701,3	78 457,7	80 098,8

Energy Information Administration, *International Energy Annual 2003*

The demand for oil increased in South Korea in the last twenty years by 400%, which shows how important this resource is in the country's economic growth. South Korea is a world phenomenon in this case.

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2004, (Thousand Barrels per Day)

			Kingdom	Canada	Japan	Korea South	United States ³
1985	1 753	2 651	1 617	1 526	4 436	552	15 726
1986	1 764	2 792	1 637	1 531	4 503	592	16 281
1987	1 785	2 723	1 611	1 607	4 567	627	16 665
1988	1 801	2 723	1 692	1 681	4 849	746	17 283
1989	1 844	2 581	1 731	1 754	5 058	860	17 325
1990	1 826	2 682	1 776	1 746	5 184	1 048	16 988
1991	1 940	2 829	1 802	1 675	5 248	1 263	16 714
1992	1 932	2 841	1 815	1 722	5 393	1 527	17 033
1993	1 877	2 908	1 829	1 754	5 279	1 684	17 237
1994	1 865	2 883	1 833	1 766	5 584	1 840	17 718
1995	1 919	2 882	1 815	1 819	5 577	2 008	17 725
1996	1 949	2 922	1 851	1 870	5 681	2 101	18 309
1997	1 969	2 917	1 803	1 956	5 700	2 255	18 620
1998	2 040	2 923	1 791	1 942	5 531	1 917	18 917
1999	2 029	2 838	1 794	2 027	5 676	2 084	19 519
2000	2 001	2 772	1 758	2 027	5 570	2 135	19 701
2001	2 052	2 815	1 723	2 043	5 487	2 132	19 649
2002	1 983	2 722	1 719	2 082	5 408	2 149	19 761
2003	1 999	2 679	1 751	2 208	5 501	2 175	20 034
2004	1 977	2 650	1 827	2 294	5 353	2 149	20 731

Energy Information Administration, *International Energy Annual 2005*

For comparison:

Petroleum Consumption Korea South and Poland, 1980-2003
(Thousand Barrels per Day)

	South Korea	Poland
1980	537,0	387,0
1981	536,0	346,0
1982	534,0	318,0
1983	561,0	325,0
1984	554,0	314,0
1985	552,0	317,0
1986	592,0	331,0
1987	627,0	340,0
1988	746,0	340,0
1989	860,0	345,0
1990	1 048,3	282,4
1991	1 263,3	271,9
1992	1 526,7	278,7
1993	1 684,1	294,1
1994	1 840,5	305,6
1995	2 007,7	320,7
1996	2 101,0	363,8
1997	2 255,0	392,0
1998	1 916,6	405,6
1999	2 083,8	430,7
2000	2 135,3	413,2
2001	2 132,0	412,5
2002	2 149,2	424,8
2003	2 168,1	476,2

Energy Information Administration *International Energy Annual 2003*

til the end of the first half of 2001 98% of the South Korean demand for oil were met by import of this resource from the area of Persian Gulf. From September 2001 the share started to decrease.

Total Gross Oil Imports from Persian Gulf, 1991-2002

1995	1996	1997	1998	1999	2000	2001	2002
1,110	1,673	1,904	1,865	1,898	2,077	1,964	1,750

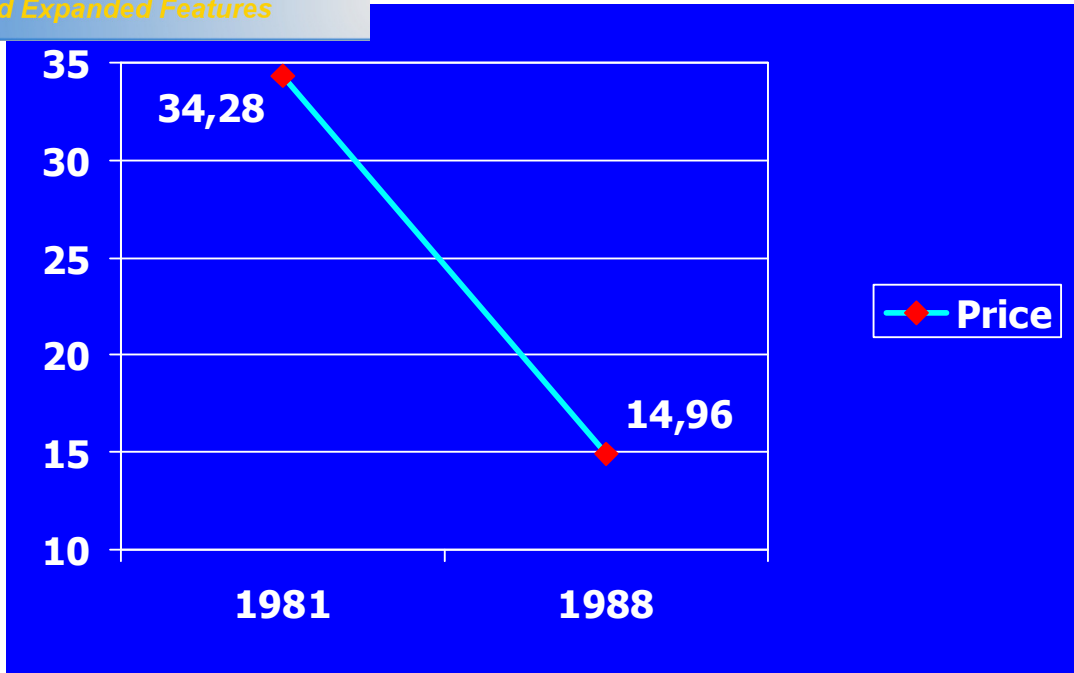
Problems with supplies coincided with constant growth of resource prices, which in case of South Korean economy were expected to influence in the near future not only GDP but also GNP¹.

Supporting American military intervention against regime of Saddam Hussein the government in Seoul had a right to expect, similarly to a significant part of American market analysts, fast decrease in the price of oil. Each dollar decrease in price, in the case of South Korean economy taking into consideration the size of the import in 2002, meant saving about two million two hundred thousand dollars daily, which is almost eight hundred million dollars a year. These expectations seemed to confirm the decreases of oil prices during previous military conflicts in the Gulf.

In 1980's American support for the regime of Saddam Hussein, and irregularly to Khomeini, fanning the conflict between Iraq and Iran allowed to decrease a price of an oil barrel from more than \$32, in the beginning of Reagan's term of office, to not even \$13 in October 1988, when the period of his second term was coming to an end.

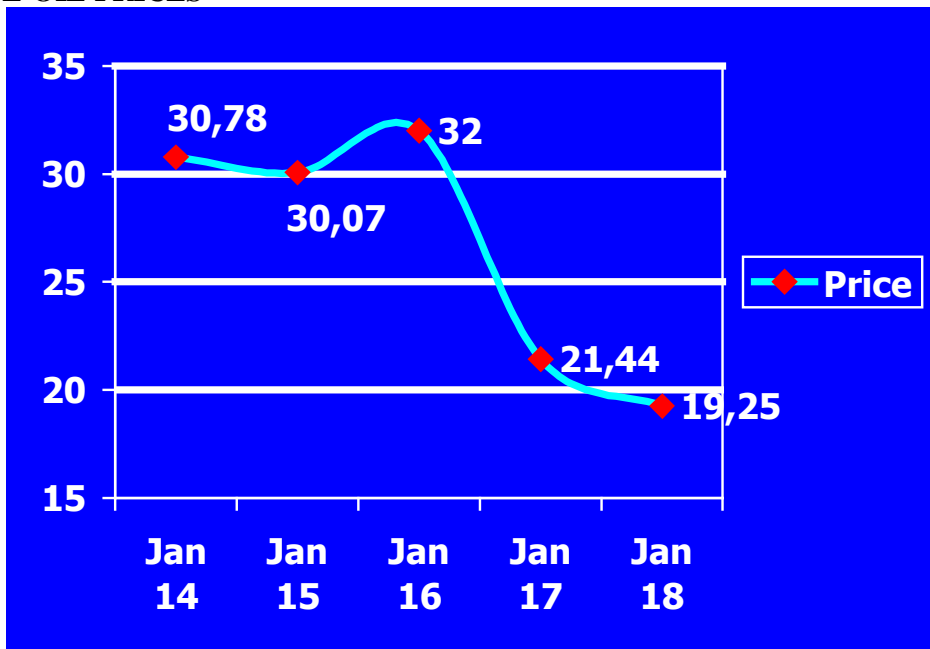
¹ High oil prices had a depressing effect on car industry, for example. South Korean concerns, considered potentates in the industry, have most of their car factories built outside the country, which may result in their possible difficulties effecting GNP instead of GDP.

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In 1991, only few hours after the beginning of the operation "Desert Storm", probably the biggest ever decrease in the price of oil took place. Within 24 hours the price fell from \$32 to almost \$10 less for one barrel. After next 24 hours it fell below a magical, for that time, level of \$20 for a barrel.

**Desert Storm, 1991
CRUDE OIL PRICES**



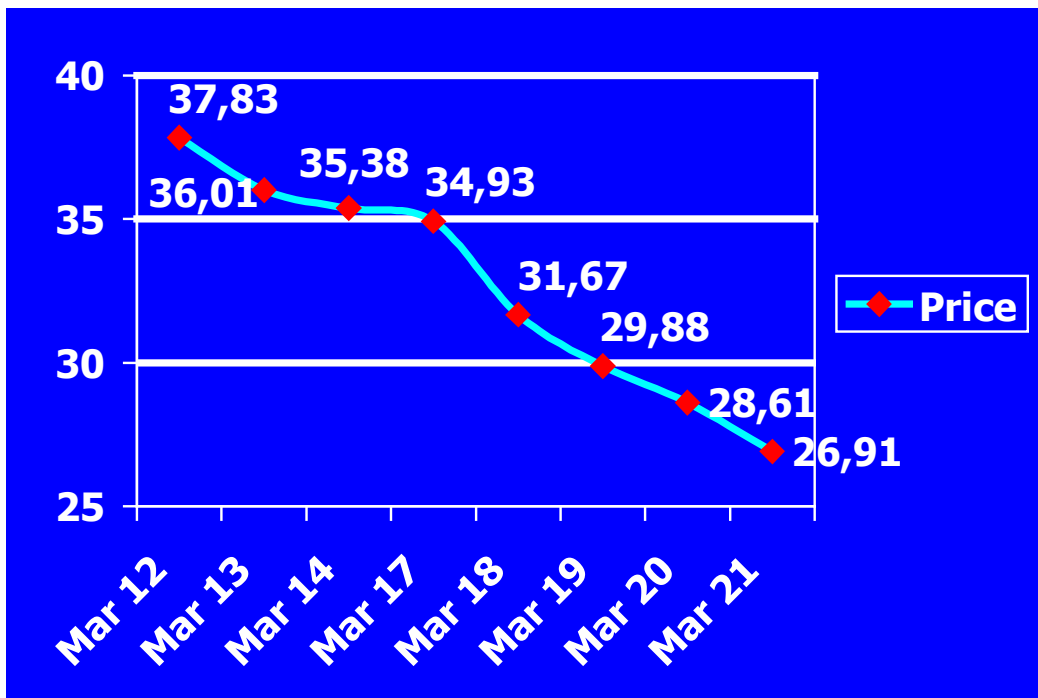
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ents of the countries belonging to the war coalition, ...oul, had every reason to expect that political and military intervention in Iraq, no matter if it supported the regime in Baghdad, as Americans did in the 1980`s, or if it took military steps against it, infallibly led to decrease in oil prices on the markets.

Calculations connected with potential fall of oil quotations on markets seemed to also confirm the newest experiences from the war against Taliban regime, when the oil price, reaching \$28 at the time of the first American air raids on Afghanistan, fell to \$22 after the events of 11th September 2001, and still to \$18 for a barrel after Kabul conquest.

The fairness of support for military actions was justified by indices of quotations which in the period directly succeeding the operation %Iraq Freedom+and in the first days of interventions behaved the same as in the beginning of 1991, when the %Desert Storm+started. In the day before the intervention they were even around similar values of \$32, and after first bombardments of Baghdad the prices fell. To be sure, the scheme of 1991 was not fully duplicated, when the value of an oil barrel decreased for about \$10 during one night because the value of an oil barrel decreased by only \$2 in the first day of military actions of %Iraq Freedom+.

**Iraq Freedom, 2003
CRUDE OIL PRICES**

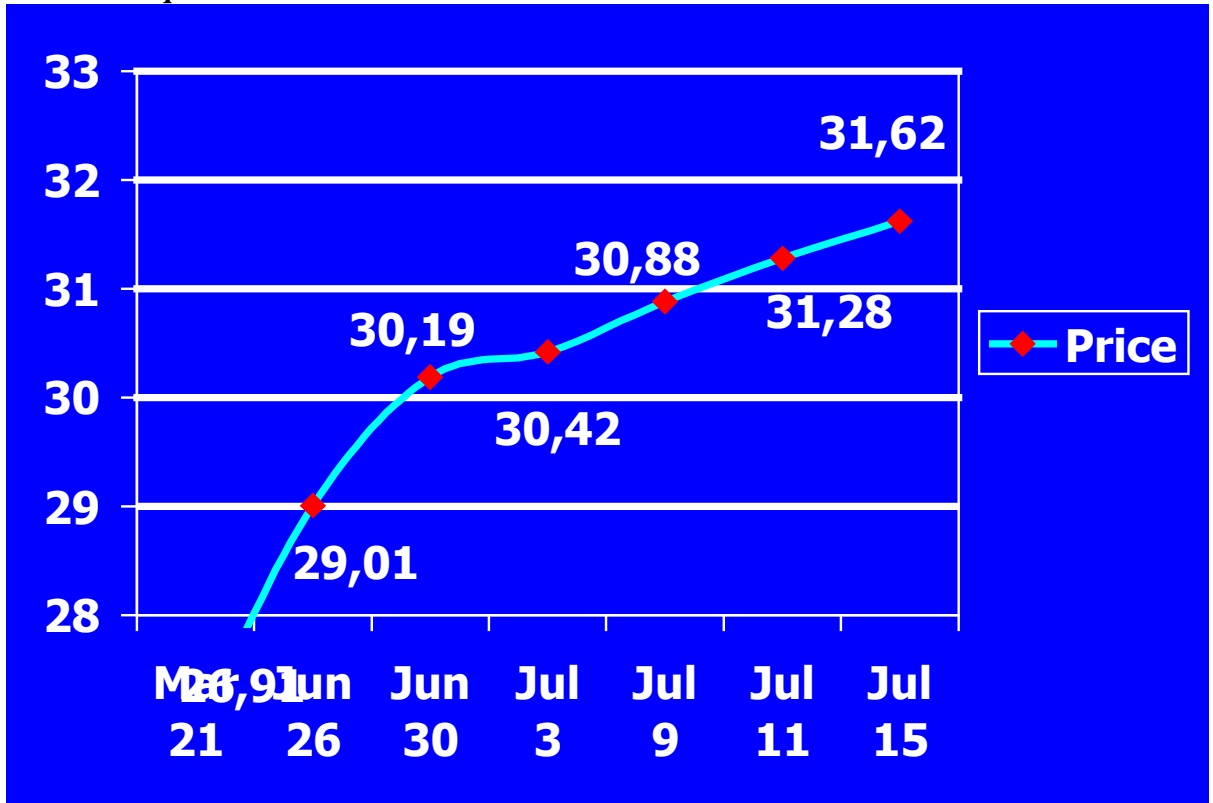


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considered as an unusual state of being different from because the market in 2003 reacted a week before the intervention had started. The total price reduction exceeded, similarly to 1991, a value of \$10.

But the similarities do not end here. On the fourth day after the operation *Operation Freedom+* began the oil price increased and the schemes of 1991 and 2003 began to take different routes.

3 months after Iraq Freedom



The increase in price noticed on 24th March 2003 was not the only correction of previous events on the market but a clear signal of a tendency to increase. The oil prices, instead of coming back to the level before the operation *Operation Freedom+* somewhere around 2013, reached it not even after three months later, going systematically up until today. What is worse, there are absolutely no conditions enabling the world to stop this tendency someday. It is not a fault of unstable situation in Iraq, where the coalition got stuck. The intervention in Iraq slowed down an inevitable process connected with the present level of energy resources consumption.

In the case of South Korea, strongly engaged in Iraq, contributed directly to stating in 2003 GDP equalled to only 3,1%, which in the opinion of the Central Bank of South Korea was the slowest rate of increase since the Asian financial crisis in 1997.

Even if the military intervention against baathist regime in Baghdad in spite of potential expectations did not reassure a decrease of resource prices by its military presence in Iraq, the government in Seoul succeeded in solving the second equally important problem of South Korean economy which was to guarantee constant supplies of this resource.

In significant part this state of being was caused by gradual restoration of Iraq's oil output. Within the last three months of 2004 South Korea became the second, after the United States, receiver of Iraqi oil in the world.

Gross Oil Imports from Iraq Fourth Quarter 2004,

(Million Barrels per Day)

	Oct	Nov	Dec
Total Gross Imports	1,169	1,226	1,074
United States¹	0,647	0,629	0,626
Canada	0,034	0,065	0,090
France	0,065	0,000	0,055
Germany	0,000	0,000	0,000
Italy	0,058	0,091	0,085
Netherlands	0,000	0,000	0,000
Portugal	0,032	0,035	0,000
Spain	0,067	0,138	0,100
Turkey	0,017	0,079	0,037
Japan	0,098	0,104	0,000
Korea, South	0,116	0,066	0,062
Other OECD	0,020	0,018	0,019

Energy Information Administration, International Energy Annual 2005

This level would probably be much higher even in the last two months of 2004, but for having, at that time place, actions of local military groups which led to serious damages of outputting machines and of the whole industrial infrastructure.

These events are one of the main reasons for which the president Roh Moo-hyun set the declaration connected with leaving 2000 South Korean soldiers in Iraq as long as it is needed.

SUPPLEMENT

The answer to the question why the intervention in Iraq did not bring the expected result in the shape of stable fall in oil prices are this year's hurricanes,

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