

potentials. For instance, the regional countries can award their exploration projects to the major Iranian firms, instead of the expensive European contractor firms. The formation of the technological market of the oil industry will help the oil producers to cut down on the production expenses. The petrodollars should be circulated within the OPEC circle and benefit the members. The establishment of an OPEC industrial and exploration company and bank would help to carry out the momentum.

Q: What is your idea about the creation of an effective mechanism of contact between the oil producers and consumers?

A: To do what?

Q: In the recent developments of the oil market, it was observed that the major oil consumers exerted immense pressure on the OPEC to increase oil production. But as soon as the oil prices tumble, there is no news of these countries. Can the constant contact between these two groups be of any help?

A: There is such a mechanism in the world. That is the World Trade Organisation. The OPEC member countries should lobby for including oil in the agenda of the WTO. The tariff protections should be dropped and a system of demand and supply should govern the market.

Q: It seems that the Western governments have adopted an adamant stance towards their people's sweeping protests against the high fuel taxes. How long, do you think, these countries will insist on their policy?

A: One of the reasons that has prompted the Western governments into opening dialogue with OPEC is that they are trying to avert the reduction of fuel taxes. But there is extreme pressure from the side of the domestic front. With the arrival of winter, their economies

will certainly become paralysed.

Q: Do you mean that they will eventually relent?

A: Of course they will. They will have to revise down their fuel taxes, because energy is the blood vessel of their economies.

Q: What about the release of strategic reserves? Do you think they will ever use their strategic reserves?

A: I think they will not do it. Because they think the oil prices will not fall and that their capacity is limited. What the US House of Representatives approved a couple of weeks ago is just a mandate which has been given to the US president. It does not mean that they will use their reserves. Besides, 30 million barrels only constitute half the world's daily energy transactions and is not a high level.

Basically speaking, OPEC does not have any problem with the output hike. The only issue is that the refineries are short of new capacities. In my opinion, the rise of production will only increase the profits of speculators.

Q: Iran has been traditionally standing against Saudi Arabia in the OPEC. After the Jakarta conference, the two countries have relatively coordinated their stances. What kind of policies, do you suggest for Iran, as the second largest oil producer, to follow within OPEC?

A: Fortunately enough, the dogmatism for which Iran was known within the OPEC has transformed into a state of relative interests. It means the compromise point is now at the centre of the table not on either side. The cornerstone of this matter is the political compromising. It means before the Iranian Oil Ministry can haggle within the OPEC, the Iranian diplomatic machine should move. The burden is mostly on the Foreign Ministry.

Iran's flawed policy in the past was that it did not join the fellow OPEC

member states to increase oil production, because of its opposition to the move. We had been wrongly thinking that the rise of oil production translated into sacrificing interests of the future generations. Some speculations suggested that the future generations should have a share of the oil. Nobody is opposed to that. But if the oil remains under the ground, it will lose its pressure and will be wasted away. In the case of the joint fields like the South Pars offshore gas field, the rival countries take the upper hand in tapping. It is almost ten years since Qatar started exploiting the South Pars gas field, whereas it is only a while that we have been thinking of tapping the mammoth field.

The oil should be turned into sustainable capital to be preserved for the future generations. During the last few days, it has been widely accepted that we have to increase our production capacity to increase our bargaining power within OPEC.

Therefore, we need first to broaden our political diplomacy and political relations in order to strengthen our standing within OPEC and raise our production capacity to back up our diplomatic negotiation. To put it in a nutshell, our technical organisation should create new oil production capacity whereas the diplomatic organisation should provide the needed power through lobbying and negotiations.

In my opinion, decision-making over oil should go beyond the domain of one single ministry, because it is a national issue. The issue of oil should be sometimes discussed at the Supreme National Security Council. It has been quite sometimes that the Azerbaijan Republic has thrown up oil rigs in the Caspian Sea and dictated its legal status on us, whereas we have been waiting in a corner to see a just legal regime thrashed out. ■

rational price of a barrel of oil stands at 100 dollars.

Q: The figure seems too idealistic and far from realisation. Isn't it?

A: No, it was not ideal. Many political factors have affected the oil price. However, I just wonder how the current 28 dollars per barrel ceiling has been worked out. According to calculations, 28 dollars is not a fair price for a barrel of oil. OPEC indulges itself in that it is selling its oil at 28 dollars per barrel compared with two dollars in the past. I believe the OPEC should realise the rise in the price of other goods such as cars, etc., and set the price of its oil accordingly.

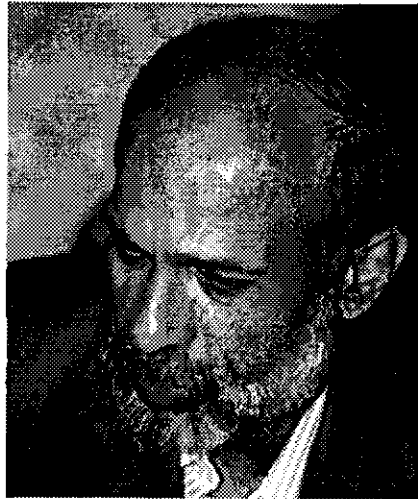
We have to find out the share of energy carriers in the production costs and see if the expenses of labour and raw materials have grown in accordance with the energy carriers.

In order for us to act justly at the negotiating table with the consumers, we have to insist that the current oil price is not reasonable for OPEC. It means taking into account the current international inflation rate, the minimum price of a barrel of oil should hover around 40-50 dollars.

I remember when I was studying in the States, every gallon of petrol was sold for 53 cents, whereas nowadays it has dramatically grown because of hefty taxes and refining costs. From the price hike, OPEC has earned the least.

Q: Oil is not a renewable source of energy. So, it needs a comprehensive look. Whereas the manpower and other production factors are always available, oil is not a sustainable factor. So, it should be given a higher share in the price hike.

A: That is right. Every factor receives its amortisation costs, whereas oil does not. Due to mounting market pressures, the oil-producing countries waste a lot of oil during exploration and pay little attention to the preservation of



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deposits. Out of 100 barrels of oil production, 25 barrels are normally wasted, mainly due to mishandling. Therefore, the new oil production capacity predominately includes the handled output not the mishandled.

Q: What kinds of reforms should be made in the OPEC structure? Some believe OPEC should act regionally, while others urge it to adopt a wider role. What is your opinion?

A: OPEC's problem is that its co-founders are predominantly located in the Persian Gulf and the Horn of Africa. In order to minimise the political risks and avert the presence of US troops at the Persian Gulf, the OPEC should distribute the risks and reduce its regional role.

OPEC should absorb new members by creating the necessary incentives within the oil grouping. The push will help bring the non-OPEC member countries, which may overlook their national interests for the sake of political benefits, under one umbrella with one common goal.

OPEC should increase its geographical diversity. There is no problem with taking in small producers. The accession of new members would even help to resolve the structural problems. Meanwhile, the OPEC should resolve the issue of electing its new secretary general through drawing up specific regulations.

In my opinion, OPEC can turn into a trade and economic union in the region. Because there are some countries on the Economic Co-operation Organisation (ECO) which are not OPEC member states. So, the two organisations can use their potentials to shape a regional trade union at least in the Persian Gulf. The idea of the Islamic Common Market can start from this point.

It will enable the OPEC member countries to use their exploration

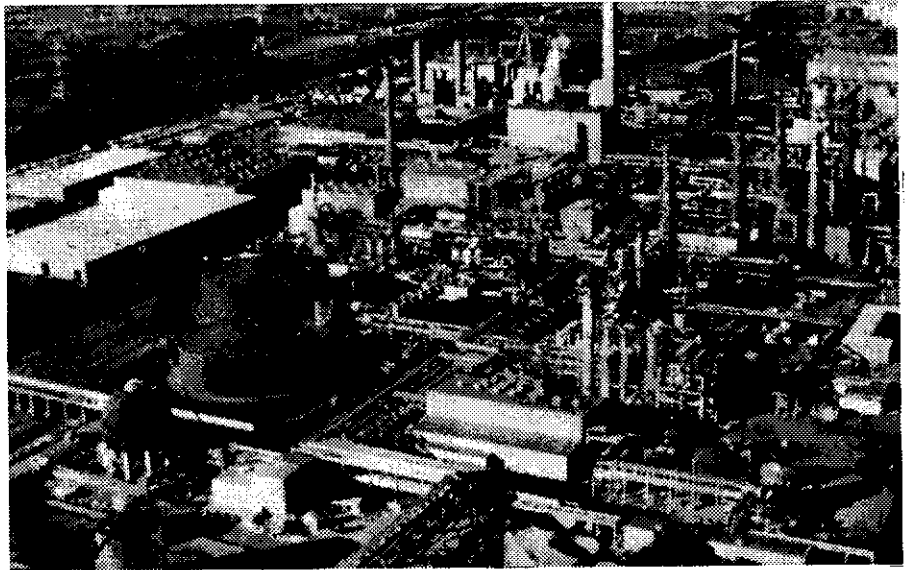
ebbed to seven or eight dollars per barrel. I can prove that the price collapse has been to the detriment of the Westerners and that they have reaped the most profits from the oil price hike.

The OPEC member countries return their petrodollars directly to the consuming countries, either for the purchase of consumer goods or industrial equipments and new investments. In 1984, our heavy industries spent 2.4 billion dollars to import industrial goods from the industrialised countries. But when oil price collapsed the budget drastically fell to 800 million dollars, bringing down the level of our imports. Therefore actually the industrialised powers sustained the main blow because of the oil price slump.

Growth of oil prices increases the level of investments in the oil industry. As the European contractor companies pick up the oil projects of the oil-producing countries, the oil incomes of the producer states eventually end up in the European pockets. Meantime, the surge of oil prices will increase the foreign exchange reserves of the oil-producing states in the foreign banks.

According to a survey published by international banks, the oil price collapse of 1984 inflicted two billion dollars in income losses on the major Latin American banks involved in oil transactions. Therefore, the main losers of the oil price hike are the silent Third World states, which have to import both the oil and other goods.

The hue and cry is essentially raised by the European countries which reap the most profits on the returned petrodollars of the oil producers and on the high taxes levied on crude imports. Meanwhile, the large Western oil-refining firms and oil dealers earn hefty amounts of revenues. The major global stock exchanges and speculators are based in



Chicago, London, etc. So, the Western states should naturally support rather than protest against the high-flying oil prices.

Q: Can we say that the rise in oil prices and the investments of the oil-producing states in their own sectors would secure the sufficient supply of oil to the consumer states and benefit their economies?

A: Yes. It will directly diminish efforts for the supply of costly fuels like the nuclear energy. The growth of oil prices will encourage the oil-producing countries to sell more oil and raise productivity of the current fields. At the moment, the OPEC oil producers tap only 10-15 per cent of their deposits and need to inject gas into the fields for further output. Therefore, the oil-rich states would seek to promote their technologies to explore new fields. In that case, even the countries which once rejected as uneconomical the tapping of a field with 50,000 barrels of daily oil production would seek to tap it. The technology needed to tap such fields lies with the Western states.

The most pressing question is "How much do the oil-producing states earn from the oil price hike?" In 1990, a barrel of oil was sold for 20 dollars. Taking into account the global inflation rate,

the current oil price of 30 dollars per barrel seems commensurably meagre. According to a study conducted at an American university, the oil prices should have stood at their actual rate of 100 dollars per barrel by the end of 1999.

Q: But the oil prices have not even reached a third of that rate!

A: Yes. Just compare the amount of investments Iran should make on the development of the South Pars offshore gas field with the previous year's. The mounting expenses only go into the pockets of the Western companies. In view of all these considerations, I think the OPEC has sacrificed more than its share. At the same time, none of the remaining four or five sectors such as the taxes, refining margins, major oil firms, oil investors and the oil stock markets has carried out its responsibility.

So, any formula in the future should account for all the factors. In their joint possible meeting in the future, the OPEC and the industrialised nations should call in all the influential elements to restore balance to the world oil market.

Q: What is the rational price of a barrel of oil?

A: As I said earlier, a research team of the Massachusetts Institute of Technology (MIT) concluded that the

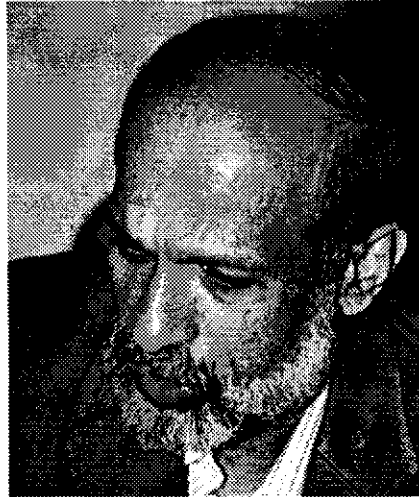
monopoly could dictate its prices on the market in the long run.

The second strategy was put forth by Iran. The Iranian experts working at the OPEC secretariat held, in order to ward off the collapse of oil prices, the OPEC should slice production at a scale matching the international inflation rate and other factors. They were actually after the stabilisation of oil prices. The two strategies were far apart from each other. Whereas the first strategy emphasised expanded oil supply to monopolise the market and dictate the OPEC-tailored prices, the Iranian strategy stressed the preservation of prices through the reduction of output.

Fortunately enough, an unprecedented event has taken place within OPEC. The member countries have hammered out their differences to reach a common strategy. It means they have applied the two strategies simultaneously. With the Iranian plan dominant, the OPEC member countries have agreed to maintain the oil prices and, at the same time, retain their market share.

In my opinion, this united stance has been the most instrumental factor in determining the market price. Thus, neither demand nor supply will have any impact on the oil market in the long run, although they may cause short-term fluctuations in the market. Even the US rhetoric of releasing its some crude from strategic petroleum reserves-which, in my opinion, will remain at the talk level-will fail to leave any major impact on the oil market.

It is a watershed event, the big powers feel obliged to sit at the negotiating table with OPEC to negotiate the oil prices. Never before had such a situation occurred, because the oil consumers were under the impression that they could influence the oil prices through individual talks with the OPEC member countries. But the



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existing unity among the OPEC member countries indicates that the political lobbies have failed to impact OPEC. Such a state of unity emanates from the warm-up of relations between Iran and Saudi Arabia.

The closeness of relations between Iran and the Persian Gulf littoral states and the rapprochement with Algeria will bolster the reigning unity within OPEC. As can be seen, OPEC is at the peak of its power. In my opinion, if the OPEC preserves the current strategy, it will definitely be able to stabilise the oil market.

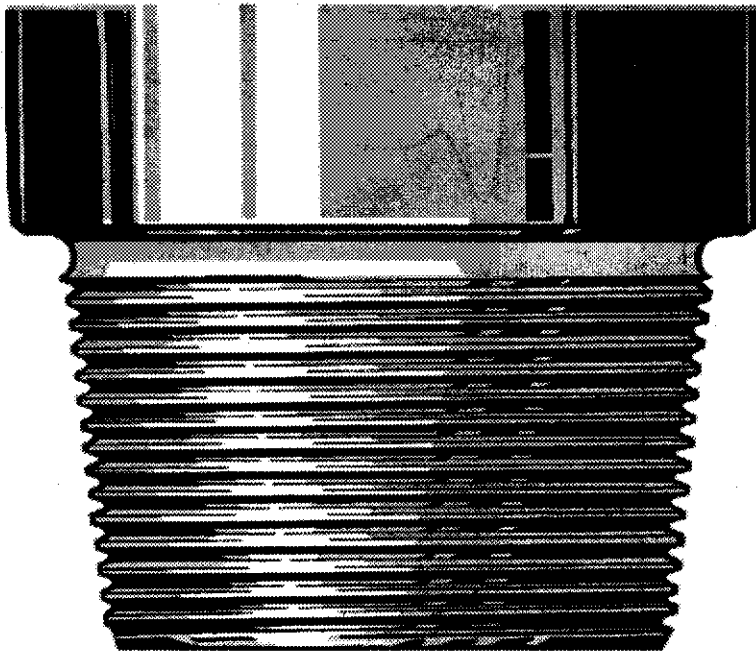
Q: What other instances of success or failure have you observed in the OPEC's performance during the last 40 years?

A: OPEC's successes or setbacks have always lied in the political consensus among the member countries. Politic has always played a key role in the unity of the OPEC members. The controversial issue of the selection of the OPEC secretary general has always served the consumers. Whereas the difference on the election of the new secretary general is not a key issue for OPEC, it has turned into a psychological factor for the consumer states to exert pressure on the oil-producing organisation.

In my opinion, the OPEC member countries should not wrangle over the choice of the secretary general, because their strategic unity is of greater significance.

Q: During the collapse of oil prices, the consumer states remained silent because it served their interests and they reaped high profits on fuel taxes. Presently, however, the consumer states have strongly protested to the OPEC over the price hike. What is your idea?

A: That is absolutely true. The consumer states have protested only when the oil prices have surged, and made no reaction when the oil prices



Europe bound to revise fuel tax

In an interview with the press, Dr Mohammad Javad Asemipour, a university professor, elaborated on the achievements and failures of the Organisation of Petroleum Exporting Countries (OPEC) during the last 40 years. He touched on the consequences of rise in oil prices, the West's pressures on OPEC, fair level of oil prices, reforms in the OPEC structure and Iran's role in the oil grouping.

A former deputy to the ministers of oil, industries, commerce, and mines and metals, Dr Asemipour headed the State Grain Organisation during two crises. He was once the deputy chief of the logistical and industrial research of the General Command of the Armed Forces as well as the director of Iran's

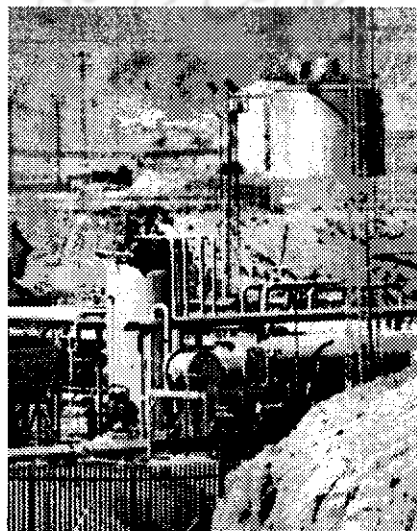
oil-producing regions during the Iraqi-imposed war of the 1980s.

He has been teaching management and economy to the post graduate and doctorate students at the University of Tehran and the Allameh Tabatabayee University. He is a lecturer at petroleum technical Institute.

Dr. Asemipour received his PhD in economy in the United States and his PhD in management at the University of Tehran. He has written a number of books including Economy of Management, Fundamentals of Management: Theory and Practice, Research Method, and A Survey of the Global Grain Economy.

Q: What is your assessment of the OPEC's performance in the last 40 years? In your opinion, how far has the OPEC been successful in carrying out its duties and role?

A: In order to assess the OPEC's performance, we need to cast a historical look at this subject. With regard to the output control and oil prices, there have always been two major strategies on the board. One of these two strategies has been led by Saudi Arabia and its former oil minister Zakki Yamani. As the engineer of the



policy, Yamani held the OPEC should increase oil production in the short term, albeit it may trigger a decline in oil prices. According to the Saudis, the strategy had two advantages: firstly the low price would increase OPEC's oil supply and market share, and secondly, it would block the entry into market of new rivals especially the North Sea oil producers, which sustain heavy costs of oil production.

Under the strategy, OPEC held two-thirds of the world's daily oil business of 61 million barrels. Thus, its