



take the realistic minimum level of prices as criteria for their economic plannings. Considering the sensitivity of oil market and its susceptibility to psychological factors, utmost care must be taken that such seemingly contradictory policies (at national and international levels) will not drive the OPEC member into paradoxical behaviours.

Miscellaneous Points

1) Western industrial states, particularly the US have always looked after security of energy through insecurity of energy-rich regions. This is a fundamentally paradoxical policy. The main reason for pursuing such policy is that: the security of such regions depend on the welfare, developments, bilateral and multilateral relations amongst the countries of the said regions.

If such conditions are fulfilled, on the one hand their military

expenditures will reduce to the least and so will their need for Western made armaments. On the other their economic dependence on oil will lessen. Hence they will freely concentrate on policies of production and pricing. This is exactly what the West does not want to take place.

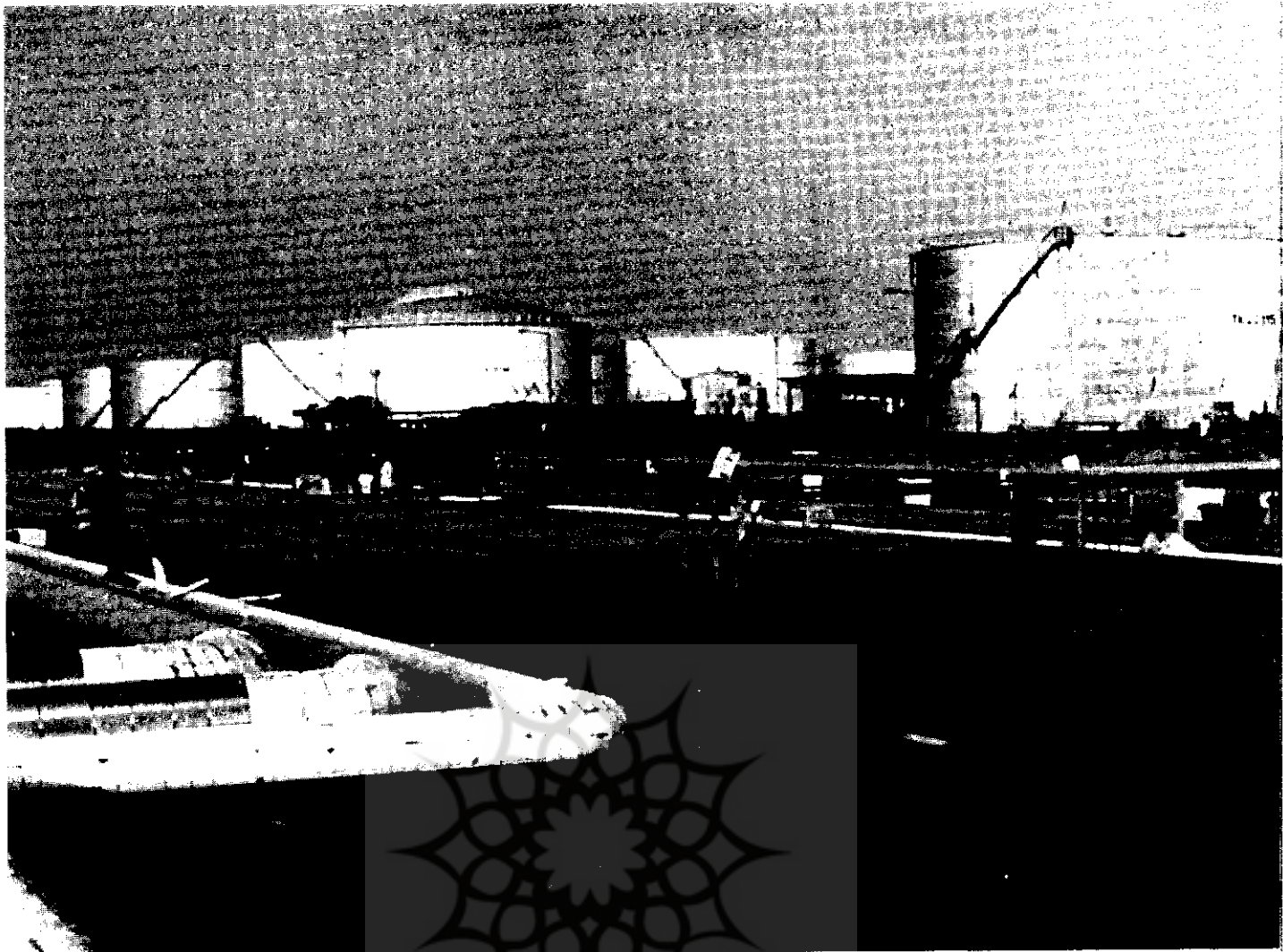
This is to taken as a warning by the newly formed independent states of Central Asian countries. They must learn a lesson from such an experience and not allow it to be repeated in their region.

2) The events of recent years have gradually taught the American administration how to use the issue of Iraq's oil as an additional instrument to control the market. In the long run the opening of Iraq's oil industry to foreign investment can effectively be against investment in the Central Asian region. It therefore must be controlled. In the short run by playing with the production level

of Iraqi oil, the world supply and hence its price can be controlled.

3) The OPEC member countries have a limited politico-economic relationship amongst themselves. Their economies are not complementary to one another. This along with other flaws in the OPEC structure is one of the major impediments on the way for members to arrive at concrete agreements and their guaranteed implementation. When member of a certain association have extensive multilateral relationship it is obviously much easier for them to agree on a particular issue (such as oil) and will be better equipped to render effectiveness their decisions.

OPEC member lack such a hall mark. Realities have proven that if OPEC members make serious decisions and insist on them, they can control the market, for they have a significant share of the total oil and its trade in the world market.



and facilities be granted to foreign companies and entering into partnership with them in capital and management thus ensuring the future supply of oil.

4) Generation of excess production capacities by the OPEC members with the aforementioned competition framework to control the market. Since investment in the production accounts for the major part of costs involved, excess capacities always tend to pressurize prices chiefly because once such costs are born then there is a constant tendency for producing more.

It is worthwhile noting that the theory of "fair market share" promoted in 1986 could not have come at a better time for the West. Because it was put forth when almost all the results of high oil prices for a considerable period of time from demand and supply viewpoints had already been obtained, and the only anxiety (for

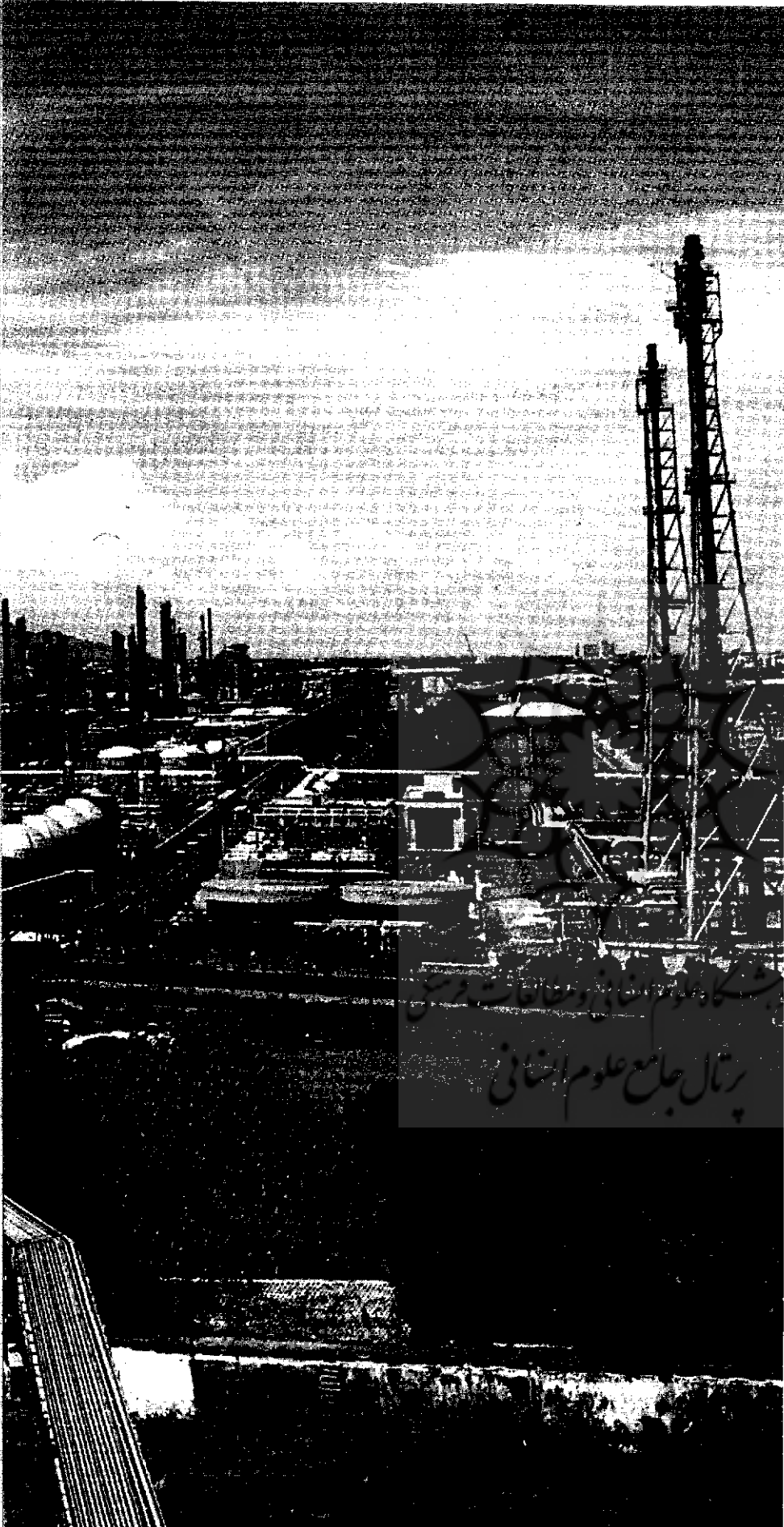
the West) could be that low oil prices would lower the capacities and the production levels of the OPEC members. Whereas that theory caused rivalries amongst them to exaggerate the figures of their reserve volumes as well as to increase their production capacities. This came when, with measures implemented on the demand side (particularly by the industrial states) oil had, more than ever, become a "primary commodity" and "Price elasticity of demand" had abated and OPEC, by controlling their production, could have gained the maximum revenue without causing any noticeable new impact on the supply-demand equation.

In view of all aforementioned points, it is not at all realistic to expect the prices to bounce back to the pre freefall price shock of 1986 whether in short term or middle term. All those factors continue to exert a heavy (downward) pressure

on the prices. Hence the base prices will remain at a low level and any future improvements would be short lived. That is to say the decline in the oil prices is not a temporary phenomenon, on the contrary any rise should be regarded as temporary.

During 1995-97 period strong economic growth in the South-East Asia region (outside OECD) pushed oil prices up to an extent and caused certain expansion of exploration and production and naturally died down with the economic crises of the region. As long as that stagnation is in existence one can not expect much improvement.

Although since the price of oil in the domestic of OPEC member countries is extremely important and hence they must do their utmost, at the international level and within OPEC, to bolster the world oil prices, however at their respective national levels they must



had market forces been allowed to act freely, then the continuation of downward trend of oil prices could have reversed after a certain period of time. That is the use of "cheap" energy would have risen and its "relative" production decrease. However the western industrial states who account for the bulk of energy consumption, interfered with the market forces and stopped the reversibility of the foreseeable trend. The said interferences are as follows:

a) Interference in the demand sector

1) In order to keep the price levels as high as they were for the end users, or in other word to immunize domestic planning against world price fluctuations (under pretext of damage to the environment, etc) imported crude oil and petroleum products (at various sectors of refining, distribution, etc) were heavily taxed.

2) Research efforts for arriving at new forms of energy were subsidized. And bearing in mind the existence of huge coal reserves in the industrial countries, special subsidy was allocated to coal so that its major share in energy would remain intact.

3) Continuation of programs for conservation and optimization of use of energy by enactment of relative laws and regulations and emphasis on environmental issues.

b) Interference in the supply sector

1) Allocation of low interest loans to major oil companies for encouraging them to invest in exploration and creation of excess production capacities despite low oil prices.

2) Inducing competition amongst oil producing countries in increasing their productions in order to offset the decrease in the prices, given their intensified economic dependence on oil revenues and need for technology.

3) Inducing competition amongst oil producing countries in attracting foreign investors in their oil industries (by causing competition in market share). Requiring ever more concessions

EXAMINATION OF HISTORICAL FACTORS & CAUSES OF DECLINE IN OIL PRICES & FORECAST OF FUTURE TREND

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In order to closely examine the causes behind the decline of the world oil prices, one must go back a bit;

The developments, stemming out of the first oil shock, in the world energy issues, were further intensified by the second oil shock while also delayed the surfacing of the first shock's outcomes. These developments can shortly be categorized in the two supply and demand sectors:

a) Demand Sector

1) Energy planning for OECD member countries and creation of International Energy Agency (IEA) the principal aim of which was to set collective planning for consumers.

2) Breaking off the then existing direct co-relative growth between economy and energy consumption by introducing extensive measures in the control of consumption and its optimization and stressing on its environmental aspects (of course as for coal it is self-contradictory) as a reinforcing factor to the said measures.

3) Endeavoring to minimize use of oil in the energy consumption basket.

4) Strong huge volumes of oil in order to control the markets at crises time.

b) Supply Sector

1) Increase in the supply as well as competitiveness of other forms of energy encouraged by the surge in the oil prices.

2) Expansion of global exploration activities giving rise to an increased world oil and gas reserves, and appearance of new oil producers.

3) Increase in the production capacities of OPEC member countries due to the fact that they recycled significant amounts of their new incomes into further expansion of their production capacities.

4) Rise in the economic dependence of OPEC members on their oil revenues.

5) Expansion of research activities in oil related industries resulting in enhanced oil reserves recovery factor and decrease in costs.

6) Formation of future markets and rise in the volume of paper trades which controlled a part of the market.

All the aforementioned factors caused the gradual decrease in demand for energy along with an increase in its supply. Next an increase in supply over demand caused the collapse of oil prices in the second half of 80's (1985-86)

Under normal conditions and

