have kept half of their oil deposits intact.

Experts say more advanced technologies are required to find new oil reserves and make the optimal use of the current fields to resolve the shortage. The chiefs of oil giants Agip and Arco believe oil preparation will tumble by 300 per cent by 2005. In that case, the world should purchase more oil from Saudi Arabia, Kuwait, Iraq, Iran and the UAE, despite the political dangers prevailing over the Middle East region.

In its latest report broadcast by the Reuters News Agency on the 5th May 2000, the International Energy Agency (IEA) expressed its concern over the sluggish trend of investments in the major oil-producing countries of the Persian Gulf, especially Iran, Saudi Arabia and Kuwait. The IEA predicted the world's oil demand would grow to 96.5 million barrels per day within the next decade, up by 25 per cent from 77 million barrels currently. Hence, the world's reliance on the OPEC will surge from 37 per cent to 43 per cent.

The agency is less alarmed over the oil shortage in the first five years of the current decade, asserting the additional capacity of non-Persian Gulf oil producers such as Mexico will help satisfy consumer demand. The IEA has specifically expressed concern for the years after 2005, when the world should supply its energy needs from the three Persian Gulf states of Saudi Arabia, Iran and the UAE. Thus, it urges the three states to make prompt investments in their energy sectors.

The IEA says Iran, despite extending invitations to the foreign oil firms, has struck only a handful of contracts for the development of its oil industry. In Kuwait, red tape and procedural bureaucracy has bogged down efforts for getting foreign contractors to participate in the sheikhdom's upstream oil projects. And Saudi Arabia has only opened its gas and power sectors to foreign firms and denied them access to its oil sector.

Oil analysts maintain despite the growing consumer demand for gas and other energy substitutes, the crude oil will remain in the centre stage, preserving its undisputed role in the coming decades. The western analysts have proposed two solutions to resolve the problem:

Firstly, the oil prices fly at reasonably high prices.

Secondly, the profits of oil supply and production should be distributed reasonably between the producers and consumers.

Analysts say the past events have proved that the oil producers, consumers and companies cannot work out viable solutions on their own. They are also far from modifying themselves, because they have founded their plans on short-term strategies, an issue which may restrict the price scope and foment political problems.

The directors of the western oil firms prefer not to draw on such risky matters that might threaten their position. So, they resort to short-term benefits and try to convince the shareholders that the situation is satisfactory.Some,however,prefer to quit their post,raising cautions over threat of oil shortage in the foreseeable future.

The fact of the matter is that the downward trend of oil prices, begun as of mid-1980s and in the 1990s, has painted a gloomy picture of the upstream oil sector. Urgent steps are needed to overhaul the sector.

Whereas the world's non-oil exports have grown 27.4 per cent from 39.43 million barrels per day from 1974 to 50.19 million in 1997, the total amount of exports has drastically dropped. A review of the OPEC's oil price in 1973, 1974 and 1999, based on the organisation's basket price of 1973, will indicate that the real oil price has slipped from 9.82 dollars to 5.61 and to 4.82.

According to the International Monetary Fund (IMF), the oil price index, based on 100 units in 1990, has climbed down by 83.8 units in 1997, whereas the price index of the raw materials hovered around 112.9 units in the same period. Despite negative media propaganda, the oil-producing countries have reaped far less incomes than other countries.

With populations of 10.2 million and 15.6 million people respectively, the Belgium and the Netherlands earn far more from their exports than the OPEC member countries-having a combined population of 517 million people-earn from their oil exports. Meanwhile. The per capita GDP of the OPEC member countries has hovered around 1,930 dollars since 1997, whereas in the western nations, it has jumped to 19,850-24,730 dollars, in Israel to 17,230 dollars and in Japan to 39,716 dollars.

The apparent result is that the previous trend is not stable, especially under conditions when the world is beginning to tap the second half of its oil reserves. Therefore, the past conditions should be changed, and the two following conditions heeded:

1. Stabilise the oil prices at a satisfactory level, to facilitate funding of upstream development projects for meeting growing global demand
2. Distribute oil incomes fairly between the oil producer and consumer countries

To put it in a nutshell, the signals released simultaneously by the world's major oil consumers and some exporters indicate that a new stage has begun in the world's oil industry, in which the exporters would fulfil international demand in a more orderly manner and in return enjoy relatively better prices. ■

1. Support continued non-OPEC oil production (including the US production which had inflicted heavy losses as a result of falling oil prices)

2. Protect global economic growth (unlike the past comments, the oil prices had strengthened the international economy in 1999 and the first quarter of 2000.)

3. Curb flagging production and the closing of exploration activities in the costly regions such as the Caspian Sea, deep waters of the Gulf of Mexico and the west Africa

4. Avert pressures of the US arms makers complaining of sluggish demand

To put it in a nutshell, the Saudi government managed to attain its targets both during the slump and improvement of oil prices.

Regarding the fourth question: The oil price hike was designed to reach a level which would stimulate the upstream and downstream oil sectors, and win the consumer and producer satisfaction.

It seems, however, that both sides have revised up their expectations of oil prices to 25 dollars per barrel, compared with 15-18 dollars in the previous years. The new ceiling matches the new OPEC basket price range of 22-28 dollars.

In the coming years, the oil prices are expected to hover around the same rates, an issue which would stimulate the upstream oil sector and stave off negative effects on the global economic growth.

On the eve of OPEC's March meeting, the oil consumers showed harsh reactions to the piecemeal rise in oil prices, which gently bumped 30 dollars per barrel. The industrialised nations, which have levied heavy duties on the retail oil sales, resisted reducing taxes to rally their taxpayers against the OPEC member countries.

In the meantime, some of the industrialised nations, led by the US, attempted to blame their domestic problems on the high oil prices. Whereas the petrol price in Europe is five times that of the American market, the US administration was quick to effectively block the growth of oil prices beyond 25-28 dollars per barrel.

The US lawmakers also pressured the administration to contain the spiralling oil prices with whatever means they know. They put forth two suggestions:

1. Sell some part of the strategic stockpiles to offset high oil prices

2. Pressure the OPEC countries, especially US allies, to increase oil production

The US government opted for the second alternative, for the sales of strategic stockpiles could aggravate the situation and increase the US vulnerability. Therefore, the US energy secretary held frequent meetings with the OPEC oil ministers, calling for them to raise oil production quickly.

He even went so far as contacting the OPEC president and some members, to force them into increased output-possibly to restore the prices to 15-18 dollars per barrel. In spite of the OPEC's increased production and the satisfaction of the United States and other industrialised nations of the measure, the oil prices remained above 20 dollars per barrel and even edged up to 25 dollars or more later on.

The most pressing question now is that "Why the Saudi government is after a fixed rate of 25 dollars per barrel?" The P(GCC)member countries particularly Saudi Arabia were aspiring to restore the oil prices to 18 dollars per barrel. Why have the oil producers then replaced their favourite 15-18 dollars range with the new ambitious 22-28 dollars?

It is not easy to respond to the question. A survey of the world's oil reserves may help arrive at a viable solution.

According to 1999 estimates, the world's recoverable oil reserves stand at 935 billion barrels, down from the total 1,800-2,000 billion barrels. So, the world has so far consumed 865 billion barrels of oil. Thus, a few years later, one can say that the world has consumed half of its oil reserves and will possibly face shortages in the coming years.

Such concerns may spark record highs in the oil prices. Analysts contend the global oil crisis will practically emerge after 2010. Around 27 billion barrels of oil are consumed annually around the world and the figure is increasingly on the rise. Despite technological achievements and expansion of oil drillings in recent years, 70 per cent of the world's oil production belong to the reserves which were discovered in the 1960s.

In 1998, mammoth deposits containing 7.6 billion barrels of oil were discovered, which constituted only 28 per cent of oil consumption in the same year. The 1998 oil findings are well above the oil findings of the recent years. Oil experts says the world has discovered 90 per cent of its deposits and there are little stakes on the board for the finding of new ones.

Among the world's major oil producers, only Saudi Arabia, Iraq, Kuwait, Iran and the UAE have a favourable standing, and are capable of playing a leading role in the future world. The oil output of the Middle Eastern countries is forecast to reach its prime. The Middle East alone is projected to produce 45 million barrels of the world's oil output in 2008.

At the same time, oil output is expected to slip among the non-OPEC oil producers, because some of them including the US have already consumed more than half of their oil deposits and are running out of their oil reserves. Others like Britain and Norway

The second impact of the seemingly unsuccessful plan was the restoration of stability and order to OPEC. Quota-busting measures within the oil grouping had reduced to a nil its organisational discipline. Remembered as a moribund organisation, the OPEC oil producers sliced production at three intervals, followed by full compliance.

The staggering compliance rate of 90 per cent of the OPEC oil producers with the new quotas pushed up prices to around 30 dollars per barrel. The co-operation of non-OPEC oil producers such as Mexico, Norway and Oman was also instrumental in the resounding success.

As a matter of fact, the aspirations of the new organisation were fully materialised, without the grouping being ever set up.Hence,the Saudi government achieved its goals to a large extent, without setting up the new organisation.

Regarding the third question: The oil prices of 10 dollars per barrel or lower were not stable. So, the Saudi government made up its mind to lift the prices. Against a backdrop of propaganda over the reduction of production cost, the 1998 plunge of oil prices proved that the upstream oil sector-especially in the non-OPEC countries-couldn't survive on the low oil prices.

In the meantime, the upstream oil projects were halted, and the investors snubbed at the new plans.The low prices entailed such destructive effects that even after the rise of oil prices to 30 dollars per barrel in 1999, the withdrawn capitals did not return to the sector.

The lack of investments in the upstream projects and the halt of new plans paralysed the expansion of international oil production, leaving negative impacts on the global oil supply.

Therefore, the Saudi government rallied support from the OPEC and non-OPEC oil producers to stimulate the oil pries and spur new investments in the OPEC and non-OPEC countries especially the exorbitant areas of the Caspian Sea.

Another staggering point was the increase of additional production capacity, which was used to offset possible oil shortages. In the aftermath of the Jakarta conference, the additional capacities ebbed away. Most important than that, the additional capacities, which were until only held by Saudi Arabia, Kuwait and the United Arab Emirates (UAE), increased dramatically across the world, as a result of the three stages of oil production cuts.

Nowadays, in addition to the Persian Gulf, other regions of the world also hold additional capacities, applicable in critical conditions.

The first and second stages of the production cutbacks were controlled by Saudi Arabia, Venezuela and Mexico. According to analysts, the three countries were in a right competition to control the US market. The output cut was in a way that they would maintain their competition the US market, with Saudi Arabia taking the lead, closely traced by Mexico and Venezuela.

Iran and Algeria joined the cutback move in the third round. The five oil producers formed the thrust of production cut. Other oil-rich countries including non-OPEC producers, which maintained close co-operation with OPEC, endorsed the decisions of the five.

The third round was featured by the unprecedented co-operation of Iran and Saudi Arabia, which made the analysts believe that the two OPEC heavyweights were most instrumental in the growth of oil prices. The oil co-operation was extended to other areas between the two countries.

It seems the Saudi government sought a partner to share the responsibility of price hikes and to scale down the level of its vulnerability against the possible collapse or improvement of prices. Capitalising on the 1986 experience when the oil prices sank to below 10 dollars per barrel,Saudi Arabia attempted to reduce its role as the frontrunner of the move and meet its interests through collective co-operation. The move proved successful.

In 1986, the Saudi government was widely blamed and criticised for the decline of oil prices. It even had to sack its seasoned oil minister Zaki Yamani.

It is evident that the global policies, both in 1986 and 1998, prevented the continued slump of oil prices, for it was detrimental to the international oil industry and global economy.

The world's seven richest industrialised nations (G7), in their summit in 1986, openly pressured the (Persian) Gulf Co-operation Council members to take measures to lift the one-digit oil prices to 18 dollars per barrel.

Following the move, the (P)GCC member countries, excluding Iraq from the initiative, forced the other oil producers to abide by their new quotas. The Iraqi regime, then at war with Iran, was granted the privilege of selling any amount of oil outside its quota.

Analysts say in 1998, the industrialised bloc, headed by the US, piled up pressures on Saudi Arabia to improve the oil prices.

"The trip to Saudi Arabia of the US Energy Secretary Bill Richardson in 1998 to pressure Riyadh to increase oil prices reminded me of the former US president George Bush's trip to Saudi Arabia in 1986, on which he attempted to curb the further collapse of oil prices," recalls the former Saudi oil minister Zaki Yamani.

Analysts say the US pressures on Saudi Arabia stem from the following reasons:

World lack of sufficient Oil: Necessity of Amending Prices

Mohammad Ali Khatibi

The cunning chief of Schlumberger, the biggest oil services company in the world, had announced that Saudi Arabia is seeking to fix the oil prices at 25 dollars per barrel. He said the Saudi government will eventually reach its goal, but at the expense of the past experiences and mistakes.

Accepting the statements of the oil chief, one would reach the question as that why in the late 1997, when the battered economies of the South-East Asian nations had affected the whole world Economy and a million barrels of oil per day had been withdrawn from the world demand, the kingdom officials pressured the OPEC member officials to increase output by 2.5 million barrels per day.

In order to reply the questions, first of all, we need to find replies for the following questions:

1. What is the relationship between the ceiling of 10 dollars a barrel or less and Saudi Arabia's target goal of 25 dollars per barrel?

2. Why did the Saudi government propose the formation of a new oil grouping, to replace OPEC, under circumstances when the prices were so weak?

3. What did prompt the Saudi government to co-operate to slice production at three stages to lift the oil prices up to 30 dollars per barrel?

4. Why does Saudi Arabia not allow the prices to exceed 30 dollars per barrel?

Regarding the first question: It is interesting to note that before the historic slump of oil prices in 1998, the Saudi government had hinted in 1996 and 97 that it would like to see the prices hover around 25 dollars per barrel. It did not look to be a serious proposal. The cold winter of 1996 pushed up oil prices to 25 dollars per barrel, but they stumbled to 18-20 dollars after the winter.

The crucial point for Saudi Arabia is to remind the oil producers that the oil market situation is gradually changing, and new situations require further discipline and harmony among the OPEC and non-OPEC oil producers.

Thus, the oil producers should abandon vain rivalry and work for further discipline in the market. Otherwise, they will sustain huge losses.

The persistent slump of oil prices in 1998, which dragged on for 16 months, taught the oil producers that irregularity will harm them all and the global oil prices may sink to below 10 dollars per barrel.

In the meantime, the OPEC member states chalked it up through experience that collective co-operation will lift the oil prices to 20 dollars per barrel or more. The rock-bottom prices will serve neither party.

On the one hand, some oil producers such as the United States sustained substantial losses from the historic price slump. The turbulence in the upstream energy sector unnerved the investors, unleashing a wave of capital flight. Limited investments in the oil sector can eventually hurt the consumers.

Thus, after almost 16 months, the oil producers and consumers reached a gentleman's agreement that the rock-bottom and high-flying prices served neither party, and that the prices should be fixed at a level that would insure interests of the two sides.

US President Bill Clinton, for instance, announced in a recent address that the 10 dollars ceiling was too low and 30 dollars too high. He recommended an inbetween price.

Some analysts hold the oil consumer states, such as the US, piled up pressures on the oil producers to increase oil production in a bid to offset the reigning stagnation and stimulate the oil industry.

The move triggered decline in oil prices, earning the oil producers less income.Thus,they dramatically cut down on their imports from the industrialised nations. The sunken incomes left negative impacts on the military orders of the Persian Gulf and the Middle Eastern states placed with the exporters.

Regarding the second question: Under conditions when the oil prices had slipped to rock-bottom lows, the Saudi government proposed to form a new oil grouping, in a muscle-flexing show to demonstrate its seriousness to reorganise the oil market.

The Saudi officials insisted that the new club, to be led by the kingdom and attended by key oil producers, will adopt immediate decisions matching the market conditions to stabilise the oil market. They particularly cited the would-be organisation's resolve for bolstering likely slumps in oil prices and moderating the high-flying rates.

The key prerequisite of submission to the kingdom's leadership of the grouping was designed to tell the aspiring members that they should not oppose the Saudi-designed of the organisation, in exchange for seeing stable prices in the market.

Although the new Saudi-oriented organisation was never formed, it left two outstanding effects on the market. The Saudi Arabia, in collaboration with Mexico and Venezuela, adopted curial decisions at the sensitive times, which were often endorsed by the Organisation of Petroleum Exporting Countries.