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**Colloquium**  
**9 February 2004**

## **The International Oil Market—Current Trends and Future Outlook**

**Speaker Dr. Leo Drollas, chief economist at the Centre for Global Energy Studies (CGES) UK**

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On 9 February 2004, the Institute for International Policy Studies (IIPS) held a colloquium on current trends in the oil market and the medium-term outlook for crude oil prices. The colloquium featured as guest speaker Dr. Leo Drollas, chief economist at the Centre for Global Energy Studies (CGES), an independent UK research organization based in London whose research activities cover the entire spectrum of energy issues.

In the course of his lecture, Dr. Drollas attributed the sustained high price levels for crude oil in the latter half of 2003 to a temporary increase in demand for oil resulting from a severe winter and a shift in demand caused by a steep rise in natural gas prices. Dr. Drollas argued that this high level of demand for oil does not represent a permanent trend. With Russian oil production continuing to show promise and with an anticipated restoration of Iraqi oil exports to pre-Gulf War levels by 2005, the oil supply/demand balance should be eased considerably. As a result, crude oil prices look set to experience an on-going decline in the medium term.



At the same time, the Organization of the Petroleum Exporting Countries (OPEC) is imposing restrictions on crude oil production that are driving crude oil prices to unreasonably high levels. This is taking place against the backdrop of a Saudi economy in which accumulated debt exceeds 80% of GDP and where annual expenditure has attained astounding levels of excess. Hence, a vicious circle is arising in which the gradual decline in OPEC's

share of the crude oil market necessitates the imposition of ever higher prices. Were this state of affairs to continue, Dr. Drollas explained, OPEC might cease to function.

An additional consideration is that US policy towards Saudi Arabia has changed radically in the wake of 9/11. Former US patronage of the kingdom has given way to a stance that asserts that continued support will be impossible unless Saudi Arabia



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adopts serious measures for eradicating terrorism. Moreover, in the light of the widespread perception that Saudi measures to counter domestic terrorism are proving inadequate, the establishment of a pro-US administration in Iraq would likely render the position of Saudi Arabia incapable of self-regeneration all the more difficult. In summing up, Dr. Drollas expressed the view that unless Saudi Arabia can ease current domestic tensions by addressing its grave internal economic problems, such as youth unemployment, the House of Saud might soon encounter the same fate that befell the former Iranian royal family.

