PRICE BUILDING AT THE RESOURCHES MARKET

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Recent oil (and other commodity) price rises, and continued rapid industrialization in China and India, have raised concerns about longer term energy security. Almost all mainstream energy forecasters predict growing global demand growth, underpinned by developing country growth and continued, albeit much slower, growth in demand in the industrialized economies.

An important concern that global capacity to substantially increase oil production will be increasingly constrained by the size and distribution of the geological resource base. As a result of such succession of events, prices are likely to stay at high levels, and may even rise further if demand continues to grow.

Views about long term prices are vital inputs to many energy investment decisions that have long lead times and a capital stock that turns over only very slowly.

The optimal price oil is the long run marginal cost (LRMC), where the LRMC includes environmental costs in addition to the full cost of doing business. This is a well- established principle of efficient market pricing.

At the same time, there is mush room for uncertainty in the future dynamics of the world oil prices, concerned with a number of factors relating to both - demand (world economy growth rates), and supply - proposition (oil production).

As an analysis of the situation on the world oil market shows, a number of factors will contribute to maintaining of high level of world oil prices. According to expectations, the growth of world oil demand will be sustainable, despite high oil prices.

History shows that current high oil and other commodity prices should eventually come down as supply and demand respond to high prices. But there will be lags in these responses because of the long lead times usually required to make new energy investments, turn over the capital stock, and even to change users' expectations and behavior.

Numerous studies have provided estimates about the effect of oil price shocks on the global economy. Though consensus on the precise magnitude of the impact is lacking, most of them agree that oil shocks reduce the overall economic growth.

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