the dollar grip on the world economy in the long run, the weakening of the dollar will damage them in the short and medium terms, during which crude oil price is based on the currency. The weakening of the dollar against other currencies particularly yen and euro reduce the purchasing power of the oil exporting countries in Japanese and European markets.

In other words, support for the euro will serve the oil exporting countries in the long run and these countries suffered a lot from the dollar rule (particularly when the dollar had been devalued), but the issue is different in the short run and the depreciation of the dollar is tantamount to the weakening of these states' purchasing power in non-dollar blocks. The problem is more serious for the Islamic Republic of Iran that has severed trade ties with the United States .

Hence, if the European Monetary Union expects the oil exporting countries (OPEC and non-OPEC states) to use euro in their deals in a bid to support the European currency in the long run, it needs to compensate for their losses in an appropriate way and pay them subsidies As mentioned before, when the euro manages to play a role in the pricing process of cruse oil, the paradox is resolved and there is no need for granting subsidies.

However, the oil exporting countries should know that dependence on the euro for pricing crude in the long run is a mistake like the blunder they made in dealing with the dollar. The crude pricing should be based on a basket of at least three hard currencies – yen, dollar, and euro – to ensure more stability and make up for their individual fluctuations.

In addition, OPEC should regularly regulate oil prices according to the dollar depreciation.

OPEC and Production Paradox

World oil prices, under the effect of the relative calm of two sets of factors, namely psycho-political issues and natural disasters, continued their downward trend. And even OPEC's decision to reduce crude oil production on October 20, 2006 failed to make any change in this trend Many analysts attributed the OPEC's ineffective decision to the market's lack of confidence in seriousness of OPEC members in abiding by its decisions. But perhaps such a justification is not very convincing as lack of seriousness has always been the case with OPEC members. Yet, OPEC decisions regarding output cut have always had psychological effects on the market, relatively increasing prices. Therefore another explanation should be found for the current situation of the oil market.

It seems that OPEC has faced a kind of paradox during the last few months which is unprecedented in the organization's history. It may last for sometime and, thus, it is a necessity to get an insight into this subject.

To understand this contrast, it should be mentioned that at least during the last three decades and following oil price shocks in the 1970s, the industrial countries, along with their energy planning and strategies, had relied on oil storage (strategic and commercial), as well as OPEC's spare capacities to control price shocks and to make up for sudden and short term shortages in the market. Experience has shown that taking from strategic reserves to control short term oil market fluctuations is neither compatible with the objectives of their oil storage policy, nor is it simply feasible since by doing so, the market may see it as the emergence of a critical situation in international conditions and its psychological impact may even aggravate the problems. Therefore, OPEC's spare production capacities have proved to be of higher importance for controlling market fluctuations. Relying on its spare capacity, OPEC has mainly played the role of the market regulator.

With the worldwide hike in oil demand and an increase in OPEC's oil output during the past two years, the organization's spare production capacities stayed at its lowest or even at zero levels. It was only Saudi Arabia claiming to have a spare capacity of about one million to 1.3 million barrels per day. But oil analysts had serious doubt about such a claim. Lack of OPEC's spare production capacity had intensified the market's sensitivity and vulnerability during this period.

In addition, the industrial countries which are members of International Energy Agency had been forced to increase their oil storage which in turn resulted in higher demands for oil to store.

With more stability coming to the market along with relative decrease in world crude oil demand in recent months, OPEC has felt obligated to reduce its output. The reduction of OPEC output means an increase in the spare production capacity of the organization's members. As it was mentioned, spare production capacity did not exist for a relatively long time. Once again the existence of spare production capacity brings some relief to the world oil market, the psychological impact of which is apparently stronger than the effect of actual OPEC physical output cut. In such circumstances, the decision by OPEC to reduce production has caused a reverse effect. The prevailing situation is predicted to continue until the time that OPEC's spare production capacity reaches a sufficient level from the market's point of view.