OXFORD INTERNATIONAL MODEL UNITED NATIONS

17TH ANNUAL CONFERENCE

25TH - 27TH OCTOBER 2019

Organization of the Petroleum Exporting Countries

CONTENTS

Message From The Directors

Dear Delegates,

Welcome to the Organization of the Petroleum Exporting Countries (OPEC) at OxIMUN 2019. We will be serving as your Directors for the conference and are thoroughly looking forward to upcoming sessions.

Fariha is in her final year of Mathematics and Economics at the University of Warwick, and Jason has just finished a Geopolitics Masters at the University of Sussex.

At this year's OXIMUN, we will be leading you in the discussion at the heart of the advanced level committees and their overarching theme – **The Future of International Petroleum Trading**. The nature of the committee will provide you with opportunities to effectively utilise the new **interconnectivity** features of the conference. We hope to see you approach these new possibilities with an open mind and encourage you to ask us whatever questions necessary to increase your own understanding of this system.

Our first topic: **Oil Supply Security in the Gulf Region**, explores the complex political landscape and how this has led to disputes which have increasingly threatened oil security. Our second topic: **Maintaining OPEC's Influence in a Post-Shale World**, will challenge you to think towards the future and the issues that may arise.

This guide intends to serve as a basis for your preparation. You are encouraged to do your own research as well, especially about your country's position. If you have any questions or need help with your preparation, do not hesitate to get in touch on the below email address – we are happy to help!

Sincerely yours,

Jason Dougenis & Fariha Baba

Directors of OPEC

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BRIEF GUIDE TO INTERCONNECTVITY AT OXIMUN 2019

Dear Delegates,

Before jumping into the in depth research contained in this guide this introductory section is designed to help you understand the added dynamics that will be at play at OxIMUN 2019 this year.

Oxford Model United Nations will be bringing *Interconnectivity* to the United Kingdom for the first time. First developed at WebMUN 2014 and then replicated by other conferences such as MUNAPEST, and most recently PiMUN; interconnectivity aims to provide a more realistic experience for delegates who wish to substantively simulate the world of international diplomacy. Just as delegates from the same country operate under a shared foreign policy in real life, delegates in the Intermediate and Advanced committees will be responsible not only for passing resolutions within committees, but for proposing policies, treaties and projects *across* them. Delegates will be working with the delegates representing the same country in other committees in order to advance their national, and global ambitions. Events, resolutions and decisions undertaken in one committee will impact others in real-time. However, **the structures of interconnectivity in the Intermediate and Advanced committees ARE SEPARATE** meaning that delegates in Intermediate committees will not be negotiating or working with delegates in Advanced committees under any circumstance or scope, but will only be concerned with the problematics present at their level. Below you will find a table of all committees in your interconnectivity system which you are expected to liaise with.

All actions pursued by all delegates regardless of committee must be related to the themes at hand. For Advanced Committees the general theme is *"The Future of International Petroleum Trading."* Delegation Meetings and Multilateral Talks are not an opportunity to discuss country dynamics which are wholly unrelated to the themes being actively debated.

Advanced Committees: INTERCON 2.0
The Future of International Petroleum Trading
UNSC
OPEC
ICJ
IMF
Press Corps 2.0

Below is a brief guide to how interconnectivity works and what it will mean for you. However, we highly advise delegates to read the full in depth description of what interconnectivity is and how it works please visit the OxIMUN 2019 Rules of Procedure.

Link: Rules of Procedure

You as a delegate:

While providing an effective and realistic context of political interdependence between parties, states, and committees delegates will be engaging not solely with the topics of their committee but are also expected to consider and contribute to other decisions its country makes. (It must be stressed that delegates are still expected to debate within committee about the topics outlined in this guide as this is your foci of research). Yet, delegates will no longer be rogue representatives but rather part of a working country delegation and as such will have to be aware of other dynamics occurring outside their committee and communicate effectively with the rest of their delegation.

Conference Wide Communication and Press: In order to operate within the dynamics of interconnectivity a Directorial Board composed of the OxIMUN 2019 Academics Team will be monitoring Conference Communication and dynamics to update all delegates on what is occurring. *Press Committee 2.0* will also be able to report on new updates, resolutions and outside deals that are passed but look out for *Official Directorial Board Statements* to receive official, unbiased updates on what has occurred.

Additionally, all delegates will be provided a Slack Account prior to the Conference where they will be connected with all Advanced Committees and Delegates. Each Delegate will have access to a Channel connecting them with their committee, their Country Delegation, their Committee Directors, the Directorial Board, and your Financial Body (the International Monetary Fund) as well as a General Conference Channel.

Delegate within Interconnectivity are expected to:

Take part in Delegation Meetings: At designated times during the conference, delegation Meetings will provide the opportunity for all Delegates representing the Same Country *(not the same University!)* to come together and discuss recent developments and advancements within their committees. This is the time in which delegates must strategise with their Delegation in order to best advance their shared aims and their country objectives. Prior to arriving at OxIMUN delegates should have already begun preliminary virtual discussions settling their shared strategy (via their provided Slack accounts).

At the end of each meeting each delegation will informally write down its new policy decisions and strategies in a Policy Paper it will send to the Directorial Board via Slack.

Engage in Multilateral Talks and Private Meetings: Multilateral Talks and Private meetings are the way delegates can talk to other countries or specific delegates they wish to organize a deal or plan with. Multilateral Talks allow delegates to negotiate issues that only concern limited number of states, are outside the scope of committee debate, or require immediate action. A delegate may send a Slack Message to the Committee Director requesting to meet with one or more Representatives of any Committee in a location of privacy.

Manage their Budget: Each Delegation, prior to the conference will be given a budget. This should include the delegation's total budget, their credit outlook, their Standard and Poor Rating, Interest Rate and Down Payment. This budget will then be used and shared by each Country Delegation (keeping in mind these always remain separate between Advanced and Intermediate committees). Delegations may use this budget to pursue committee goals, multilateral agendas or unilateral actions pertaining to their country specifically. Delegations must also keep in mind that their actions and decisions throughout the conference may impact their Credit Rating and thus negatively or positively impact their budget's size.

Delegates will turn to the International Monetary Fund, which will be the financial system for Advanced committees in order to get advice and receive approval on projects. Please see details in the Rules of Procedure.

INTRODUCTION TO OPEC

OPEC is a permanent, intergovernmental organisation which aims to coordinate and unify the petroleum policies of its Member Countries. Our committee at OxIMUN 2019 will serve as a simulation of the bi-annual conference of OPEC that takes place in Vienna. OPEC seeks to ensure the stabilisation of oil markets in order to secure an efficient, economic and regular supply of petroleum to consumers, a steady income to producers and a fair return on capital for those investing in the petroleum industry (OPEC, 2012). The organisation has 14 member countries: five in the Middle East, seven in Africa and two in South America. There is also purposeful difference to be noted between those countries deemed Founder or Full members. The OPEC Statute states that "any country with a substantial net export of crude petroleum, which has fundamentally similar interests to those of Member Countries, may become a Full Member of the Organization, if accepted by a majority of three-fourths of Full Members, including the concurring votes of all Founder Members", highlighting the importance of this distinction. Additionally, the organisation often opens its doors to other countries with significant oil production levels, such as Russia and Azerbaijan, creating the extended group commonly referred to as OPEC+. Over the past year, the inclusion of these additional member states has been effective towards OPEC goals – Russia agreed to follow OPEC suggested production cuts to support oil prices, and this agreement has recently been extended until March 2020 (OPEC, 2019). During OxIMUN 2019, we will be simulating OPEC+ discussion at the bi-annual OPEC conference in Vienna.

STRUCTURE AND FUNCTIONS OF THE COMMITTEE

The Organisation's mandate, as per Article 2 of its statute is simple: "the coordination and unification of petroleum policies in order to collectively safeguard interests." Unlike the regular meetings of the Board of Governors of OPEC, the Conference is attended by the Energy Ministers of each state and thus is deemed a more high-level forum.

Under Article 11 of OPEC's Statute, **all substantive decisions require the unanimous agreement of member-states.** Procedural votes will follow standard OxIMUN Procedure. This decision-making process will thus also apply in the committee. Delegates are expected to reach consensus for their policies and focus on mutual interests rather than marginal advantages over each other. OPEC is effective in the international arena only in-as-much as it is a united front. Therefore, while delegates should strive to steer the committee to their views, failure to reach consensus would be a loss for every single member-state.

As mentioned previously, following the Declaration of Cooperation, OPEC+ was created which includes all members of the Organisation in addition to petroleum producing countries who are not formal members but have agreed to coordinate along certain policies (examples include Russia, Kazakhstan and Mexico). States belonging to OPEC+ but not OPEC will be present in the committee and can participate in all the debates and discussions exactly as official members would. However, non-OPEC states cannot vote on substantive matters. Therefore, their role is more complicated as they have to persuade other delegates of their views being beneficial to the Organisation without holding voting power within it. As these additional members are significant oil producers, OPEC members should heed to their opinions because OPEC seeks cooperation with them to enhance its own strength – see the above history for examples of when OPEC would have benefitted from following this principle.

HISTORY OF OPEC

The organisation was created at the Baghdad Conference in 1960 by Iran, Iraq, Kuwait, Saudi Arabia and Venezuela. The creation was driven by increasing oil production, and an accompanied realisation that the resource was finite, and that competitive price cutting was quickly becoming unsustainable. The first notable action taken by OPEC was the 1973 oil embargo. Following the abandonment of the gold standard, the US Dollar plummeted. As oil contracts are priced in USD, oil exporter revenues fell along with it. The aim of the embargo was to counteract this and provide exporters with financial protection.

Country	*Membership*	*Proven Reserves (billion barrels as of end of 2018)*
Algeria	Full	12.2
Angola	Full	8.2
Ecuador	Full	8.3
Equatorial Guinea	Full	1.1
Gabon	Full	2.0
Iran	Founder	155.6
Iraq	Founder	145.0
Kuwait	Founder	101.5

Libya	Full	48.4
Nigeria	Full	37.0
Republic of the Congo	Full	3.0
Saudi Arabia	Founder	267.0
UAE	Full	97.8
Venezuela	Founder	302.8
OPEC Total	Full	1189.4
World Total	Full	1498.0
OPEC Percent		79.4%

Figure 0.1: OPEC Members' membership status and proven reserves. Source: OPEC Annual Statistical Bulletin

Despite OPEC's limited membership, the influence of the organisation reaches far wider. Many non-OPEC members also voluntarily adjust their oil production in response to OPEC's decisions. However, failure of this system was witnessed in the 1990s, when non-OPEC members such as Mexico increased production to take advantage of OPEC's limits (Amadeo, 2019).

The membership of the organisation has since grown (and at times diminished – e.g. termination of Qatar's membership January 2019), totalling a current membership of 14 (as of September 2019). OPEC is also currently forming a partnership with a 10-country oil alliance led by Russia. This not been welcomed by all OPEC members – Iran has openly denounced this new partnership, with concerns at Russia and Saudi Arabia will dominate the organisation that emerges. In July 2019, the countries signed a Charter of Cooperation, spanning three years, which will set production levels for all 24 members of the new partnership. It is likely that the 10 Russian led countries will also attend regular OPEC meetings (OPEC, 2019).

TOPIC A: OIL SUPPLY SECURITY IN THE GULF REGION

BACKGROUND

The global oil market remains vulnerable to many risks, such as natural disasters, major technical accidents, and as is the issue for discussion, geopolitical tensions (IEA, 2019). With this in mind, the need for oil supply security can be understood easily. Oil is expected to remain a major component of global energy demand for the coming decades. In 2014, the International Energy Agency (IEA) reported that oil comprised over 30% of the entire planet's total energy supply. Additionally, the oil industry is key to large countries such as the United States, Saudi Arabia and Russia, who all have significant reliance on oil exports. In Saudi Arabia, the oil and gas sector accounts for about 50% of gross domestic product and about 70% of export earnings (OPEC, 2019).

The Gulf is home to some of the largest oil reserves and producers in the world. The region provides investment opportunities internationally and is home to one of the most crucial shipping routes in the oil industry – the Strait of Hormuz. Unfortunately, the Gulf is also host to a variety of geopolitical issues which draw on the involvement of the entire international arena.

This section is a brief narration of issues currently faced in the Gulf region. It is important to understand that threats to supply security come from many sources and delegates should not only focus on the most current news. This section will also discuss actions that were attempted in the hope to resolve these issues and will provide indication of their levels of success. Currently, there are many tensions evolving within the region. Thus, we have provided an explanation of three selected case studies which have affected or have the potential to affect oil supply. Nonetheless, delegates should not feel limited to these topics during the discussion and should encourage dialogue around other concerns that have clear connections to oil supply security in the Gulf.

The Qatar Diplomatic Crisis

The Qatar Diplomatic Crisis began in June 2017. A coalition led by Saudi Arabia, formed of the UAE, Bahrain and Egypt, amongst others, severed diplomatic relations between the countries and Qatar and consequently witnessed these nations banning Qatari airplanes and ships from utilising their airspace and sea routes. Additionally, Saudi Arabia blocked their only land crossing (BBC, 2017). These severe actions were taken due to allegations risen by the coalition that Qatar had been supporting terrorism in the region, a key security concern for the Gulf. This would also imply that Qatar had violated a 2014 Gulf Cooperation Council (GCC) agreement, a six-nation group that includes Saudi Arabia, the UAE, Bahrain and Qatar (Herb & Sciutto, 2017). The GCC laid out commitments to avoid any interference in the internal affairs of other Gulf nations. Qatar was deemed as having violated provisions which barred support of the Muslim Brotherhood, as well as outsider groups in Yemen and Saudi Arabia which pose a threat to security and stability of Gulf Cooperation Council states.

Furthermore, Saudi Arabia, the UAE and Bahrain issued a list identifying 59 individuals and 12 entities as terrorists living in Qatar (Hatoum, 2017). The list included Khalifa Mohammed Turki Al Subaiy, who is designated by the U.S. government as a financier for Al Qaeda and is widely known to have supported Khalid Sheikh Mohammad, the mastermind of the September 11 attacks on the World Trade Centre, as well as other Al Qaeda financiers and ideologues. In a statement Dr Awwad Alawwad, Saudi Arabia's Minister for Culture and Information, claimed that Qatar was providing these terrorists with "financial and logistical aid", and called for immediate cessation of such actions (Hatoum, 2017). The Saudi led coalition also submitted a list of 13 demands to Qatar, which we would thoroughly recommend delegates read to expand their understanding of the topic (consult Further Reading).

In response to these allegations, Qatar acknowledged that it had provided some assistance to groups such as the Muslim Brotherhood, but denied assisting others linked to Al Qaeda or the Islamic State of Iraq and the Levant (ISIL). Unsurprisingly, the Qatar refused the demands, stating that they would not agree to any measures that threatened its sovereignty or that violated international law (BBC, 2017). In return, diplomats from the coalition agreed to withdraw the demands and replace them with a request for commitment to six broad principles – combating terrorism and extremism, denying financing and safe havens to terrorist groups, stopping incitement to hatred and violence, and refraining from interfering in the internal affairs of other countries (Gladstone, 2017). This change of request lasted for a very short time, and the original 13 demands were reinstated by the end of July 2017.

Following Qatar's failure to fully cooperate, the blockade has now been ongoing for over two years. At the start of the blockade, the effect on Qatar was very clear – the main Qatari stock index fell by over 10%. Over the past two years, Qatar has managed to gain independence from the rest of the Gulf through utilisation of its diplomatic influence, furthering their relationships with Turkey and Iran. Notably, Qatar restored full diplomatic relations with Iran on 24th August 2017. Both provided support for Qatar in the wake of the crisis in the form of aid, yet now these relationships have extended to include bilateral economic investments and increased trading between the nations. Notably, Qatar now uses Iranian air, ground and sea space during many of its shipping routes (Kucukasci, 2019).

In January 2019, Qatar withdrew from OPEC in order to concentrate fully on the liquid natural gas (LNG) sector. This allows Qatar to exceed limits previously implemented by the organisation, leading to an increased focus on the sate coming from companies such as Exxon, which will consequently allow for greater competition from foreign companies to invest in Qatar and take advantage of these new opportunities. Additionally, Qatar did not send Sheikh Tammi al Thani, Qatar's Emir, to attend the GCC in person, instead sending a lower ranking minister, indicating further withdrawal from Gulf cooperation (Kucukasci, 2019).

Iranian Oil Tanker Seizures

Figure 1.1: Map depicting the Strait of Hormuz. Sourced from [TIME]

In May 2019 four oil tankers were hit by blasts in the Gulf of Oman. The US was quick to accuse Iran of planting mines on the vessels, which Iran soon denied. Following this, two more tankers were attacked, leading to international involvement. Both the US and UK increased their naval presences in the region, and both the US and Iran claimed to have shot down each other's drones (BBC, 2019). In July 2019, Iran seized a British-flagged tanker in the Strait of Hormuz. In statements following the capture, Iran claimed that this was a retaliatory move in response to the seizure of one of its tanks by British forces near Gibraltar (BBC, 2019). In early August, the Iranian tanker was released.

The involvement of the US and the youth of the issue makes it a significantly more imminent concern than the Qatari issue. Additionally, the issue of the Strait of Hormuz is of particular concern to the oil industry. Just south of the coast of Iran, the Strait facilitates passage of a third of the world's LNG and almost a quarter of total global oil consumption, making it a key strategic location for international trade (US EIA, 2019). Due to the supply concerns and the serious possibilities of escalation to war, markets have become increasingly wary towards a sharp increase in oil prices due to uncertainty, discussed further in the later section focused on market reactions. Despite the negative outlook, the oil market is not reacting as would be expected – trade war news and global growth concerns have distracted the market driving prices lower (Watts, 2019). Further escalation of these and the Iran tensions could also test whether the traditional $100 barrel "geopolitical risk ceiling has been lowered" (Croft, 2019).

Saudi Arabia Oil Field Attacks

Most recently, on 16th September 2019, explosions erupted at Khurais oilfield and Abqiaq processing facilities in Saudi Arabia, both owned by Saudi Amramco and reducing production by almost 50%. Amramco is Saudi Arabia's state-owned oil company, currently in the process of preparing its initial public offering, expected to be one of the largest IPOs in history (Safi & Wearden, 2019). The Saudi oil ministry stated that production has been disrupted by around 5 million barrels a day, nearly half of Saudi Arabia's output.

Following the attack, the Houthi army claimed responsibility for the attack. The Houthis have been fighting a Saudi-led military coalition in Yemen for the past four years (Safi & Wearden, 2019). Notably, these attacks mark a considerable increase in sophistication compared to those earlier attacks by the Houthi army on Saudi Arabian oil fields. The United States has also claimed that there is no evidence the attack came from Yemen and has instead suggested that the attack originated from Iran in response to Iranian oil sanctions. Since this announcement, the UK has joined the US in blaming Iran, who has denied involvement in the attack (BBC, 2019).

Worrying, the impact this attack has had on production (over 5% of world production) has displayed that the world's energy infrastructure is significantly vulnerable and is therefore generally a possibility for attack by terror and state groups. Out of the three discussed case studies, the Saudi Arabia attacks have arguably had the greatest market impact due to this security implication, discussed further below.

DISCUSSION OF THE PROBLEM

Nuclear Fears

As can be seen in all of the above issues, they stem from specific political problems between Gulf countries and the wider international community. In the case of Iran, the tensions can be traced back to the rejection of Iran's nuclear deal by the United States. In 2015, an agreement was reached for Iran to limit its nuclear activities in exchange for the removal of economic sanctions, led by nations concerned that Iran's nuclear exploits reached farther than just peaceful intentions (BBC 2019). However, in 2018, the US pulled out of the deal and reinstated sanctions on Iran. Following this decision, Iran has stopped complying with several key nuclear targets to which they had committed and are threatening to continue this line of derailment unless states which are still signed onto the deal attempt to mitigate the effects of US sanctions. Many analysts have observed that the seizure of tankers may be Iran displaying its ability to disrupt shipping should other countries continue to avoid intervention (BBC, 2019).

The issue is also starting to intertwine with other international concerns, namely the US-China trade war, as China has begun a path of rhetoric that implies its more direct involvement in the issue. In September 2019, China stated that it will invest 280 billion USD in Iran's oil and gas industry with the intention of minimising repercussions to Chinese companies for breaching US sanctions (Spencer, 2019). Moving forward, delegates will need to consider how Chinese investment will further complicate the issue and may obstruct movements towards de-escalation in light of the current global political landscape.

Differing Foreign Policies & Religious Majorities

Qatar's issue is somewhat more contained to the Gulf region and is yet to draw far-reaching international involvement, yet it draws our attention to a very different type of issue in inter-Gulf relations. Strain has been placed upon the relationship between Qatar and its neighbours due to political changes since the Arab Spring and the introduction of new and younger political leadership across several states including Qatar and Saudi Arabia.

One key factor for delegates to explore further is the deep-rooted Sunni-Shia Islamic divide in the region. Although Qatar mirrors Saudi Arabia as a Sunni state, the increasingly close relations between it and Iran are placing greater strain on the remnants of its relationship with Saudi Arabia. Saudi Arabia and Iran have been competing for years over influence in the Middle East, and this can be largely due to their religious divide, not only to their dispersion of oil reverse (Erickson, 2017). Delegates should be careful not to overlook this aspect of the argument and understand the relevancy of the religious differences.

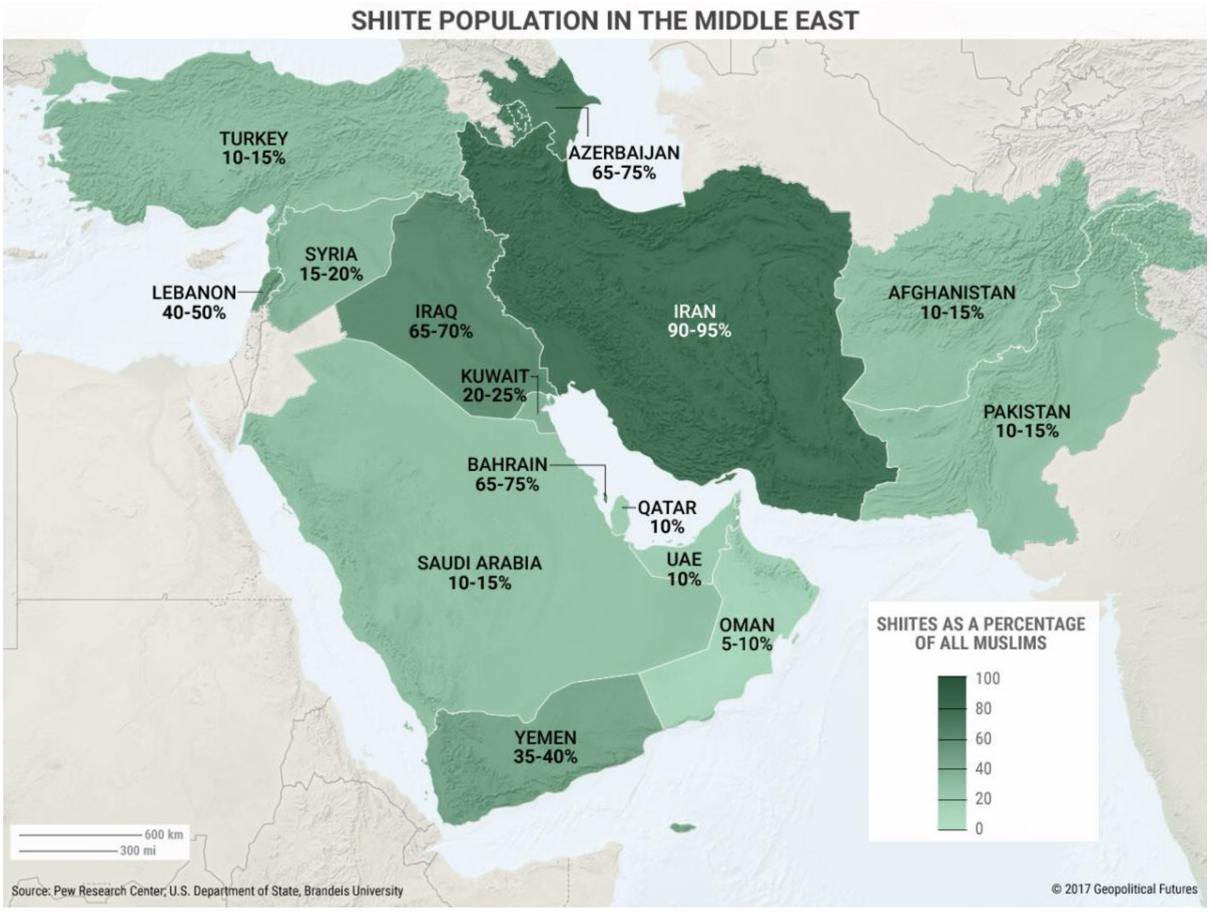

Figure 1.2: Map depicting Shiite populations by percentage of all Muslims in the Middle East.

Sourced from [Geopolitical Futures]

The Work of the Gulf Co-operation Council

Historically, the GCC has provided a platform for its members to "aid unity in the Middle East based on their common objectives and their similar political and cultural identities, which are rooted in Arab and Islamic cultures" (Britannica, 2019). Due to the aforementioned tensions, the work of the Council is expected to be somewhat stunted, however it is important to remember that the Council is now one of the few intimate forums shared by both Qatar and its neighbours. The GCC holds a yearly summit to discuss shared issues in the Gulf to help its members reach a higher level of coherence in their politics (TRTWorld, 2018).

Market Reactions to the Disputes

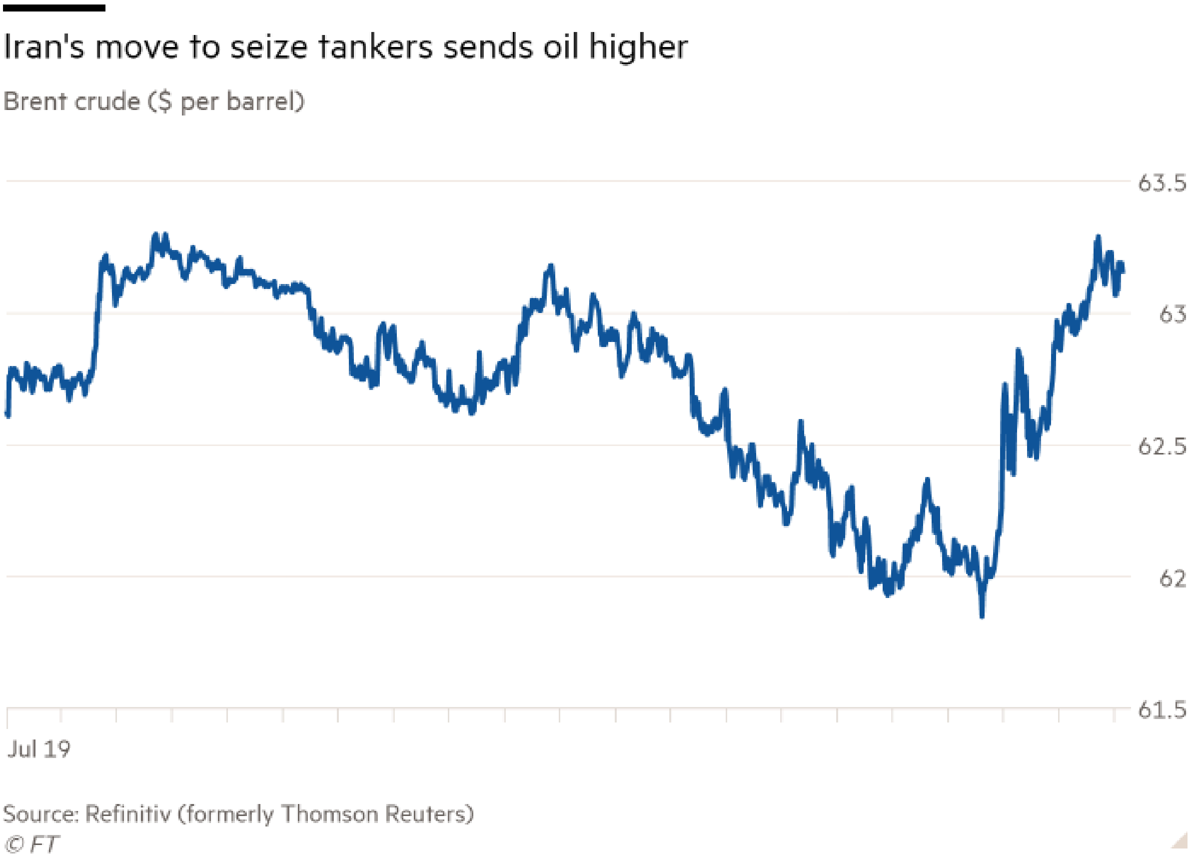

Figure 1.3: Graph depicting Brent crude price per barrel on the day of two tanker seizures.

Sourced from the [Financial Times]

As mentioned previously, prior to the Saudi Arabia oil field attacks, the Gulf has not been the key focus of oil markets recently due to far more distracting headlines – the global growth slowdown, US-China trade war, Fed rate cuts and Brexit have all led headlines over tensions in the Gulf. However, we have been able to see key market reactions that may be indicative of future price changes. For example, following the Iranian seizure of two tankers, Brent crude rose 2.1% due to fears over the security of Gulf shipments (Rocco, 2019). Nonetheless, in the same week, Brent crude fell 6.4% overall, displaying clearly the greater concerns over weak global demand for oil (Rocco, 2019). Delegates must consider how a potential escalation could lead to the need for output adjustments. Similarly, following the intensification of tensions between Qatar and other Gulf nations, Brent crude was up as much as 1.2% per barrel – a clearly less marked reaction than that for the tanker seizures, and significantly less than for the days following the Saudi Arabian oil field attacks (Woodhouse, 2017).

Following the Saudi Arabia oil field attacks, Brent crude oil prices rose by almost $12 a barrel, a jump of over 14%. Additionally, trading volumes across New York and London beat daily records, with the equivalent of over 5 billion barrels of oil being traded. As discussed previously, due to the attack, the oil market now has to price in the current supply loss and, importantly, the higher risk premium for future oil production and trading (Sheppard et al., 2019). This also marked the largest intraday spike in Brent crude prices in the last 25 years.

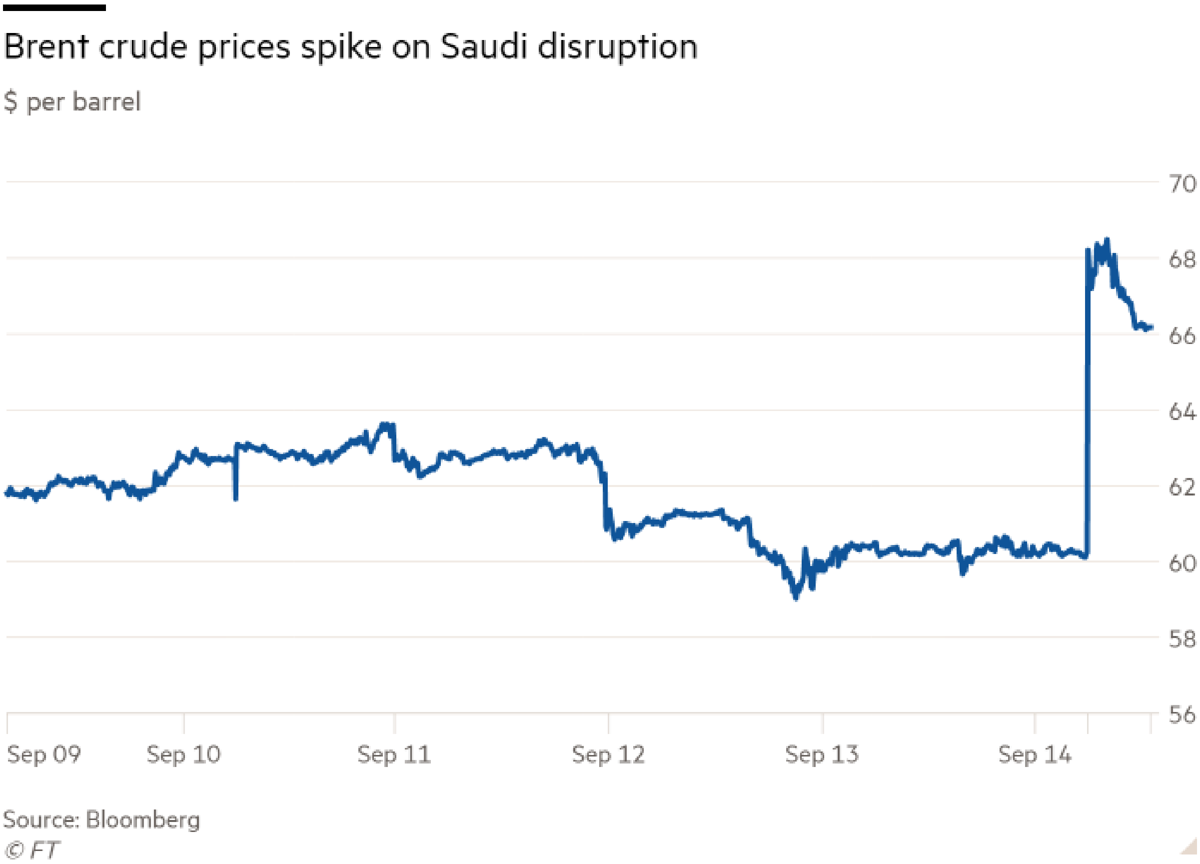

Figure 1.4: Graph depicting Brent crude price per barrel following Saudi Arabian oil field attacks. *Sourced from the [Financial Times.]*

POINTS A RESOLUTION SHOULD ADDRESS

Delegates are advised that this is not an exhaustive list and delegates should strive to go beyond these questions within their discussions and any resolutions they may produce.

1. What level of intervention, if any, is appropriate from OPEC? Delegates should carefully consider the mandate and means of the committee.
2. How can OPEC endeavour to ensure their operations remain effective in the event of an escalation in the Gulf?
3. In the event of an escalation can current productions levels be maintained to support OPEC members/does the organisation have sufficient means to adjust production levels or shipping methods swiftly enough as to not damage member nations oil exports?
4. How should OPEC interpret the market reactions that we have seen led by the Gulf escalations keeping in mind the effects that under-priced/overpriced markets will have on future oil exports?
5. How can we ensure OPEC membership remains favourable? Delegates are reminded of the importance of consensus in this committee due to the voting procedure for substantive matters.
6. Which UN bodies and other organisations would be appropriate to involve within this issue?

FURTHER READING

As this topic deals with a situation that will most likely develop significantly before the start of the conference, we would recommend for delegates to focus their research on recently published articles and research. This especially applies to Saudi Arabia – we expect for this situation to develop significantly before the conference. We would encourage delegates to read investment research and data analysis around the Gulf issue, a great deal of which has been published by various firms such as these from Refinitiv and ING. https://www.refinitiv.com/perspectives/future-of-investing-trading/gulf-tensions-the-threat-to-strait-of-hormuz-oil/

https://think.ing.com/articles/opec-vienna-waits-for-you/

Although the full documents agreed by the GCC are not available to the public for security reasons, delegates are encouraged to read this CNN article written by two individuals who had the opportunity to read some of the agreements. The article provides details of some of the agreements and gives greater detail and analysis of the reasoning behind their introduction. https://edition-m.cnn.com/2017/07/10/politics/secret-documents-qatar-crisis-gulf-saudi/index.html?r=https%3A%2F%2Fwww.google.com%2F

This Associated Press article details the list of 13 demands discussed earlier around Qatar. This is not a long read, but an important one in order to fully understand the Qatari issue. Reading the full list will provide delegates with a better understanding of the potential issues surrounding Iran and the major concerns of the Saudi-led coalition. https://apnews.com/3a58461737c44ad58047562e48f46e06

Some additional readings for delegates to become more familiar with the topic include:

- An overview for all countries of oil production and dependency: https://www.theoilandgasyear.com
- An explanation of the current situation in Qatar: https://www.trtworld.com/opinion/the-saudi-led-blockade-won-t-end-anytime-soon-but-qatar-has-moved-on-26803
- A full history of the Iranian Tanker Seizures: https://www.theguardian.com/world/2019/jul/20/gulf-crisis-tanker-retaliation-iran-hormuz
- A further explanation of the historical Feud between Saudi Arabia and Iran: https://www.washingtonpost.com/news/worldviews/wp/2017/12/20/whats-behind-the-feud-between-saudi-arabia-and-iran-power/
- Discussion of the role of the Houthis in the Yemeni conflict: https://www.bbc.co.uk/news/world-middle-east-29319423
- Further explanation of the Saudi Arabian oil attacks: https://www.theguardian.com/world/2019/sep/16/trump-says-us-locked-and-loaded-after-saudi-arabia-oil-attack-as-crude-prices-soar-iran-aramco
- A look inside the damage caused by the attacks on the Saudi Arabian oil fields: https://www.bbc.co.uk/news/av/world-middle-east-49782930/saudi-arabia-oil-attacks-a-look-at-the-damage

TOPIC B: MAINTAINING OPEC'S INFLUENCE IN A POST-SHALE WORLD.

The so-called "Shale Revolution" that has taken place primarily in the United States since 2011 has fundamentally altered the dynamics of international oil markets to the detriment of the power and influence of the member-states of the Organisation (Ritz & Behar, 2017). In the last few years, articles regarding the demise of OPEC are abound (WSJ, 5/12/2018), as the Organisation's collective share of global oil revenues has gradually reduced and all attempts to revive it have not yielded the desired results. It is in this committee that delegates are called upon to design a long-term future for the organisation, to debate and decide on policies that will secure its long-term influence over the oil markets and ipso facto their oil revenues.

The term *shale* refers to petroleum that is inside shale rocks and can by obtained by fracturing the rock, a process known as "fracking". For this topic, the important difference between this technique and conventional oil production is its high per-barrel cost (Thomspon, 2017).

BACKGROUND

This section provides a brief narration of the problem presented, starting from a time of relative strength for OPEC to its current difficult predicament. It also outlines the two approaches that

OPEC has taken in the past to solve the issue, both of which had some positive consequences but ultimately failed to bring the results that were either expected or required.

History Repeated (2008 to 2016)

In many ways, the root causes of the 2008 crisis can be considered an oil crisis as it has been shown that the constant climb in prices of oil was what brought the US economy into an economic downturn and therefore turned the subprime mortgage crisis into a global Great Recession (Thomson, 2017). However, what is undeniable is the effect of the crisis on the oil markets both directly and indirectly.

'Peak Oil', the idea that annual supply of crude had peaked and therefore would steadily diminish, was still the operating assumption of OPEC (Genc, 2017), even past the point of crisis. That assumption was soon to be re-evaluated. The American Federal Reserve's Zero Interest Rate Policy (ZIRP) in combination with quantitative easing (QE) had significant unintended consequences in the international oil markets. With the price of oil being at a historic high, equalling over $100 per barrel in 2011's QE-ZIRP which allowed for easy access to capital. This made extracting oil through hydraulic fracking financially viable for the first time in history (Thomson, 2017). The period of sustained oil prices between 2011 and 2014 allowed for the rapid growth of shale-oil in the United States, and also incentivised Canada to start exploiting its huge reserves in Alberta (Gavarini, 2019)

Figure 2.1: A graphic representation of the price of crude oil over 10 years.

Crucially 2011-2014 is a period of sustained high prices.

Sourced from *[Macro Trends]*

Thus, in 2014 following a steep increase in supply and a sluggish demand growth due to the weakness of the global economy's recovery following 2008 (Genc, 2017), oil prices collapsed from over $110 dollars per barrel at the start of the year to less than $50 by its end.

OPEC was thus in deep crisis as most of its member states require a price of between $70 to $90 per barrel to finance their national budgets. Led by Saudi Arabia, the Organisation opted for a strategy of "squeezing" its opponents out of market-share (Ritz & Behar, 2017) as opposed to furthering policies which would stabilise the prices. This was a similar response to that of the 1980s, however it was based on stronger strategic grounds. OPEC nations can extract petroleum at a low cost, enabling them to be profitable at lower prices while shale-oil is infamously expensive to extract. The calculation was that by maintaining low prices, OPEC's expensive competitors will be driven essentially 'out of business' and OPEC's overall revenues would stabilise because although it would be earning less per-barrel, it would have a higher overall market share.

Following this decision, the international price of oil continued to plummet, reaching $36 per barrel in January of 2016 (See Figure 2.1), while OPEC's market share remained relatively stable, hovering around 38% and even starting to edge upwards.

Discipline and Production cuts (2017- present)

However, such low prices were not politically and economically sustainable for most members of the organisation (WSJ, 2018). Although nations such as Saudi Arabia and the United Arab Emirates are able to maintain profitability with prices as low as $30 per barrel, this is not the case with most non-Gulf members whose extraction costs are higher. In addition, member states began facing such substantial domestic challenges that the reduced revenue from oil only deepened. Nations such as Nigeria and Venezuela rely on oil revenues for their national economies and face great domestic instability that is intimately related with oil's ability to finance the state (Summer, 2018).

Thus, in 2016 there was a change of direction within OPEC. The Organisation decided that the best way to maintain its power would be to reduce supply in order to bolster and stabilise the price. On December of 2016, OPEC signed the 'Declaration of Cooperation' with non-OPEC oil producer nations, namely Azerbaijan, the Kingdom of Bahrain, Brunei Darussalam, Equatorial Guinea, Kazakhstan, Malaysia, Mexico, the Sultanate of Oman, the Russian Federation, the Republic of Sudan, and the Republic of South Sudan. The addition of these nations currently comprises OPEC+. Its goal is to coordinate production cuts in order to stabilise supply.

This led to a steady increase in the price of oil to approximately $75 per barrel in 2018 (See Figure 2.1), which was also partly caused by the US's withdrawal from the Joint Comprehensive Plan of Action (JCPOA/i.e. Iranian Nuclear Deal) and re-introduction of heavy sanctions against Iran's oil industry. However, this increase in price had the predictable seesaw effect; it made shale oil even more accessible and thus lead to a steady decrease of OPEC's market share over time, projected to follow below a third of the globe's oil revenue for the first time in history in 2020 (See Figure 2.2) as the United States is projected to be a net oil exporter within the same time-frame (Economist, 27/4/2019).

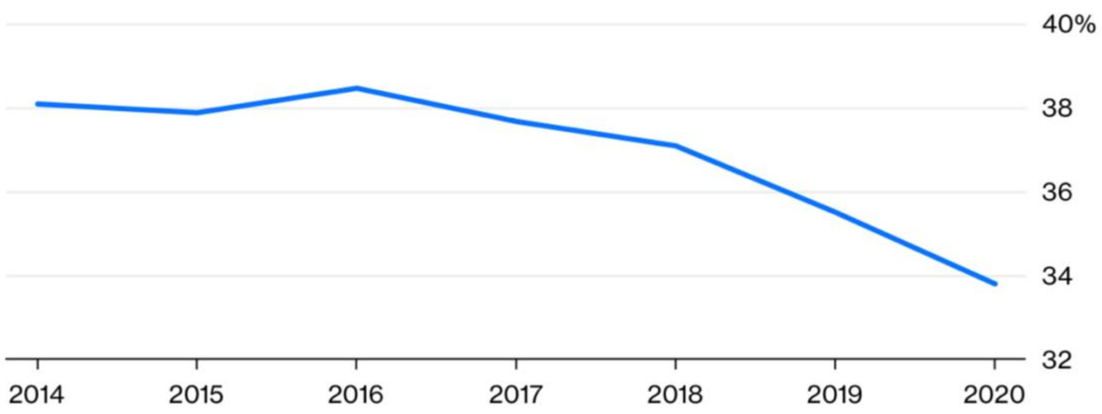

Figure 2.2: A graphic representation of OPEC's share of crude oil revenue over time. Graph taken from (Denning, 2019)

The basic framework established in the Declaration of Cooperation is still operative today. However, now in 2019 it is evident that cracks are starting to show (Chandrashekhar, 2019), as the painful production cuts have failed to stop the ascending of rivals and OPEC's relative influence diminishes. Rifts are becoming more visible between member-states and dissatisfaction over policies is ever louder. A long-term sustainable solution to contrast recurrent band-aid policy, is yet to be reached.

DISCUSSION OF THE PROBLEM

This section contains an analysis of OPEC's structural predicament in the post-shale political economy of oil. Both geopolitical and economic factors are considered, as they both contribute to the rationale behind each member state's position within the Organisation.

The fact is that unlike previous challenges that the organisation has faced, this one is structural and thus requires a structural solution. The key, immovable issue is the fact that shale oil and conventional oil flourish under different market conditions. Therefore, there can be no *a-priori* unity in the interest of oil producers. Simply, **"under market conditions where both non-conventional and conventional oil production are present there is no equilibrium price".**

This is the most significant structural impediment to securing OPEC's long-term influence, however there are other obstacles to the Organisation's functioning in the modern post-shale climate that will be outlined below:

Competing market approaches

A. Curbing production**:** This is the strategy that OPEC has been employing since 2016, in coordination with members of OPEC+. At its core is a very simple economic concept. OPEC hopes to achieve a higher sustained price of oil at over USD$80 per barrel. To do so, members agree to cut production, thus reducing supply and *ceteris paribus* increasing the price of oil.

Following this policy, Saudi Arabia has cut production by more than 600 thousand barrels per day (bpd), shouldering the majority of the burden. Russia has also cut an equal amount from its own production in cooperation with OPEC((Denning, 2019). Other nation states have also been reducing their supply in proportion to their economy, with Venezuela, Iran and Libya receiving exemptions because of their dire domestic crises (WSJ, 5/12/2018).

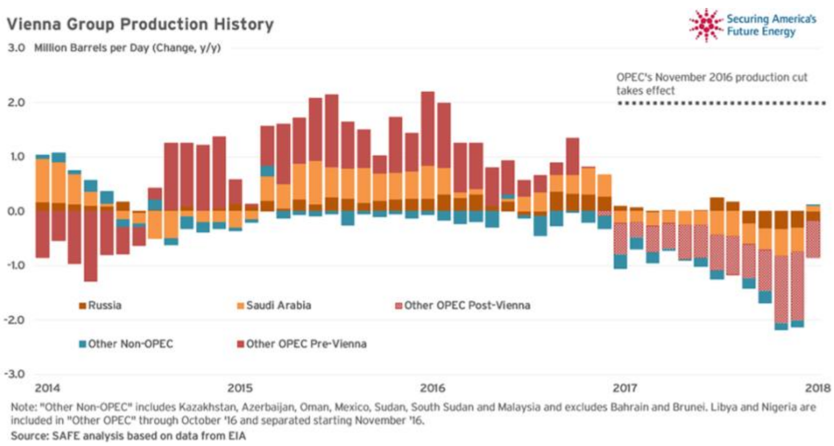

Figure 2.3: A representation of the relative increase and decrease of the supply of oil over the last five years, measured in million bpd. The production cuts after 2016 are clear. Source included in the graphic.

Although this approach has yielded some results in increasing the price (see Figure 2.1), it leads to an ever-decreasing market share for OPEC (see Figure 2.2), thus putting pressure on revenues. This, although workable in the short term, in the long term undermines OPEC's ability to control the market. In addition, it increasingly relies on Russia continuing to adhere to the cuts, defying its past as a major OPEC competitor (Cohen, 2018).

Yet, another issue with this approach and the reason it leads to a steadily decreasing market-share for OPEC is that it allows expensive shale oil to become a more profitable export, thus boosting America's capacity to challenge OPEC in its traditional export markets (Ritz & Behar, 2017).

B. Letting the price float: This was the original strategy adopted by OPEC in the face of the shale challenge and was also the one the Organisation had used unsuccessfully in the 1980s when faced with the exploitation of Alaskan and North Sea fields (Gavarini, 2019) This approach aims to capture market share, by flooding the supply side of the equation with the cheaper conventional oil, as can be seen from 2014-2016 in Figure 2.3. The direct causal effect of such an approach is a collapse in the price of oil, with the intent to reach a level where expensive-to-drill shale oil becomes unprofitable and thus OPEC retains its share of the market.

In the period of its application, it saw general oil revenues decrease for the member states, however it also led to 72 bankruptcies in the Texas and North Dakota shale industries (The Economist, 2018). Therefore, it was producing some promising results, as after all, shale became a possibility for the United States because of the very high oil prices starting from the global economic recovery of 2010 (Thompson, 2017).

As studies have shown, in a world of low and volatile prices, OPEC nations have a structural advantage because their ability to drill is relatively inelastic vis-à-vis oil prices and global macroeconomics as a whole (Vatter, 2019). Thus, the Organisation enjoys this risk premium over its competitors that would perhaps allow it to thrive in a volatile world.

However, this approach has some very significant disadvantages. Most crucially, it is an incredibly risky approach. High per-barrel prices guarantee a level of income to the states to fund their domestic agendas and most OPEC nations are very dependent on oil for their national economies.

With prices being in the >$35 range, it would be a major short-term pain for members in the form of gigantic budget deficits, as most member states require a price of ~$80 to be solvent (Grant, 2019). Thus, this approach's possibility to secure the long-term influence of OPEC has to be balanced against the very tangible political and financial demands of each member state in the short term.

Thus, it is up to this committee to decide which of the two opposing directions it wishes to take. In doing this, delegates should think of their own country's interests and which one serves them better as well as considering the long-term power of OPEC as a whole, through which they have increased weight against the non-OPEC world.

Internal Unity

Another component of the problem is how the policies decided in the conference will affect the long-term unity of the organisation. The measures that OPEC+ has taken in recent years to control the price have aptly been characterised as a prisoner's dilemma for member states. Collective action to cut production means price increases which bolster every state's revenue. However, each individual state has a rational self-interest to violate the agreement and keep its production high while reaping the benefits of higher prices due to other nations cutting their own production. Thus, every agreement reached in the conference should be balanced in a way that does not overly incentivise individual nations to violate it or have specific countermeasures in the event that one does. Realism is an important aspect of diplomacy and although OPEC is meant to act in the world as a coherent organisation, its very coherence can only be guaranteed by pursuing policies that uphold it.

The more powerful nations within OPEC (such as Saudi Arabia and the UAE) have recently been voicing their dissatisfaction with the disproportional burden on them in carrying out the tough measures necessary to maintain a stable price. In the words of Saudi Arabia's energy minister Khalid Al-Falih ; "**cutting production in low-cost places to subsidise higher cost supplies just delayed an inevitable reckoning**" (Thomson, 2017).

Thus, delegates must keep in mind that proposals should at least in-principle seek to be equitable and just. There are different conceptions of a 'fair deal' as principles of solidarity and common interest clash with principles of equity and dissuading 'piggybacking'.

Demand Side solutions

However, even the most creative supply-side solutions would still have to face the fundamental reality that demand for oil has been consistently weaker than expected, as in 2020 29.27 million bpd will be required from OPEC compared to the 29.83 that it is producing now (Grant, 2019), and this is due to the world economy itself having significantly lower growth since the 2008 Great Recession (Genc, 2017). As one analyst puts it; "Cutting oil supply to support prices in a fundamentally weak market is a Sisyphean task" (Denning, 2019). Even if OPEC was to show exceptional discipline on production cuts to keep the price high, its efforts will be undermined as the weaker global economy combined with the rising competition would ensure the continuity of a global oil surplus, thus putting constant downwards pressure on the price.

Therefore, more structural solutions of revitalising the world economy are necessary to ensure the long-term prospects of OPEC states, whose incomes rely on continued and sustained growth in the demand for petroleum.

Due to this, delegates are encouraged to work in cooperation with the International Monetary Fund through the mechanisms of interconnectivity to advocate for policies and solutions that would boost global oil demand.

Geopolitical considerations

The political economy of oil, of course, does not exist in a vacuum but is heavily intertwined with broader geopolitical calculations. While Topic A deals extensively with this intersection, particularly as it relates to the Gulf, there are some aspects of international security that also directly affect this topic.

Primarily, it is the fact that although the United States is OPEC'S principle emerging competitor in the market, it is also the closest ally and guarantor of security for some of the most influential states in the organisation. It has been historically true that the special weight the United States has due to its geopolitical preponderance has allowed it to influence the policies of the Organisation via primarily, Arab states for which it is a security guarantor (Thompson, 2017). Especially recently, President Trump has pressured Saudi Arabia to increase its production in order to lower prices, something that the Kingdom complied with in 2018 (see Figure 2.4).

In addition, the hegemony of the dollar as the currency of the global energy markets is known to bring advantages to the States. Namely, trading oil in dollars maintains the currency's strength, thus allowing the United States to comfortably finance its huge private and public debt, without which shale would be impossible (Thompson, 2017). The primacy of the dollar also makes oil prices becomr dependent on its strength, thus reducing further the freedom of manoeuvring for OPEC.

American power is considered to be in relative decline (Posen, 2017). Is it time for OPEC to move further away from the dollar, or is friendship with the US such a significant factor that no drastic measures should be taken to threaten it? This is a question that each delegate should weigh depending on their state's particular interests when formulating OPEC policy.

Debating the topic

Because OPEC operates through consensus, there are no clear blocs in the same way that one would find in a United Nations General Assembly committee, however there are some fundamental dichotomies at the heart of possible policy routes where it is recommended that each delegate, through their own research, decides the side they are on.

A. Floaters vs Price-hawks: This is one of the clearest distinctions and it goes back to the different market approaches outlined above. States such as Saudi Arabia and the UAE can be characterised as "floaters" because they can extract oil at a very low cost, so they are able to be profitable at low prices. Therefore, they are much more willing to let them drop to counter the competition.

Meanwhile "price-hawks" are much more concerned with maintaining a high price of oil, either because of the higher extraction cost (such as Nigeria) or because political crises demand a higher oil price for immediate financing rather than having space to damage competitors in the long term (such as Iran, Iraq, Libya) or for both reasons at the same time (such as Venezuela).

B. American friends vs American rivals: As mentioned above, some states in the organisation have very close security ties with the United States (and to a lesser extent the UK) and therefore are more hesitant to take measures that would threaten that relationship (such as Kuwait, Saudi Arabia, UAE), while other states in the group have opposing interests to the US across the spectrum and thus are more likely to move against it.

However, that being said, it is not a hard constraint for American allies as, for example, Saudi Arabia felt that it had enough leverage in its relationship with America to substantially antagonise the Obama administration (the 2014-2016 'floating' period of OPEC was part of that).

C. Developed vs Developing: The last one is closely connected to 'A' and is quite self-explanatory. There is a huge gap between the average economic development of the richest compared to the poorest members. Therefore, the latter is much more likely to favour measures that boost solidarity within the organisation whereas the former have a higher capacity to go at it alone.

However, delegates should remember that OPEC is an exclusive club that operates by consensus and countries are voluntary members because through it they can advance their *mutual* interest. This is a unique forum for member states to leverage their combined weight to influence the global political economy so although delegates should use these dichotomies as a guide to the direction they wish to steer the committee, the fundamental goal remains to arrive at a set of policies that enhance the common interest of *all* members.

POINTS A RESOLUTION SHOULD ADDRESS

Given the historic crossroads on which the Organisation finds itself, it is time for comprehensive and structural solutions to ensure OPEC's continued influence over oil markets and *ipso facto* the prosperity of the member states. It is recommended that this solution tackles the following questions:

1. What should be the target price for crude oil?
2. Should market-share or price stabilisation be prioritised?
3. How should the burdens of any measures be distributed and what mitigation measures can be taken for the weaker members? Does the policy promote the long-term unity of the organisation?
4. How should members account for their geopolitical dependence on OPEC's main market competitor, the United States? What, if anything, should be done about the dollar's dominance?
5. Is cooperation with the Russian Federation through OPEC+ desirable in the long term?
6. What measures can be taken on the demand side? How can OPEC work with the IMF to ensure a stronger global economy with higher oil demand?

FURTHER READING

Delegates are encouraged, as part of their research, to download **OPEC's official Monthly Market Report** for the month of the conference, which can be found at:

https://www.opec.org/opec_web/en/publications/338.htm. This is an incredibly valuable resource as it provides detailed statistics on oil demand and supply as broken down by region and country as well as insightful commentary on the significance of these numbers. Generally, OPEC's website is a great place to start research as it also has the press releases from bi-annual conferences and country-specific information, regarding their oil industry.

Delegates are also strongly advised to read through OPEC's 2016 Declaration of Cooperation not only for its content but also to see how official opec resolutions are: https://bit.ly/2CGjtks

Bloomberg.com and *the Economist* are two publications that regularly feature articles on the Oil Market and OPEC in particular. Therefore, browsing through their archives is a good starting point for research. Finally, for a deep understanding of the political economy of Oil and the structural problems facing OPEC, Professor Helen Thompson's **Oil and the Western Economic Crisis (2017)** is *highly* recommended as it was also the inspiration for this topic.

Some additional readings for delegates to become more familiar with the topic include:

- OPEC's Annual Report for 2018, especially the first two chapters: https://bit.ly/2kuOhxI
- The summary of the IEA's 2019 oil report: https://bit.ly/2kNWA8a . The full report is also available but requires purchasing.
- The summary of the IEA's 2019 individual country report for the US, as it is the main competitor https://bit.ly/2m9IJZR .
- To learn more about the history of the organisation, see:

Gavarini, G., 2019. The rise and the Fall of OPEC in the twentieth Century. Oxford: Oxford University Press.

- For studying the approaches that OPEC took in the recent past, read :

Genc, T., 2017. OPEC and demand responses to crude oil prices. *Energy Economics,* Volume 66, pp. 238-246. **and**

Ritz, R. & Behar, A., 2017. OPEC vs US Shale: Analyzing the shift to a market-share strategy. *Energy Economics,* Volume 63, pp. 185-198.

- Finally, OPEC's advantage compared to its competitors is explained relatively simply in:

Vatter, M. H., 2019. OPEC's Risk Premia and Volatility in Oil Prices. *International Advanced Economics,* Volume 25, pp. 165-175.

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