OPEC

UNITED NATIONS ORGANIZATION OF THE PETROLEUM EXPORTING COUNTRIES

BACKGROUND GUIDE

PWSMUN 2019

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LETTER FROM THE
EXECUTIVE BOARD

Dear Delegates,

It is an honour for us to be chairing the OPEC Countries Committee at the PWS Model United Nations Conference of 2019. The issue in discussion is of importance to the citizens living in OPEC countries and the budgets of the governments of the same.
The OPEC countries are highly reliant on the export of oil and petroleum products and their national expenditure is mainly dependant on the same. This high reliance has left them with no prominent back up to balance their budget.
The price of oil in the global market has reduced which has resulted in limiting the capacity of the government to provide services for its citizens at an affordable price, or in some areas, has caused it to stop providing governmental help at all. Healthcare, food subsidies and water supply have all taken a big hit due to this change.
We hope that the committee will be able to do justice to the affected countries. We wish all delegates the very best and look forward to meeting at PWSMUN 2019.

Regards,

Executive Board,
OPEC Countries Committee, PWSMUN 2019.

INTRODUCTION

The Organization of the Petroleum Exporting Countries (OPEC) was founded in Baghdad, Iraq, with the signing of an agreement in September 1960 by five countries namely Islamic Republic of Iran, Iraq, Kuwait, Saudi Arabia, and Venezuela. They were to become the Founder Members of the Organization. These countries were later joined by Qatar (1961), Indonesia (1962), Libya (1962), the United Arab Emirates (1967), Algeria (1969), Nigeria (1971), Ecuador (1973), Gabon (1975), Angola (2007), Equatorial Guinea (2017) and Congo (2018). Ecuador suspended its membership in December 1992 but re-joined OPEC in October 2007. Indonesia suspended its membership in January 2009, reactivated it again in January 2016, but decided to suspend its membership once more at the 171st Meeting of the OPEC Conference on 30 November 2016. Gabon terminated its membership in January 1995. However, it re-joined the Organization in July 2016. Qatar terminated its membership on 1 January 2019.

This means that, currently, the Organization has a total of 14 Member Countries. The OPEC Statute distinguishes between the Founder Members and Full Members - those countries whose applications for membership have been accepted by the Conference. The Statute stipulates 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.” The Statute further provides for Associate Members which are those countries that do not qualify for full membership but are nevertheless admitted under such special conditions as may be prescribed by the Conference. In accordance with its Statute, the mission of the Organization of the Petroleum Exporting Countries (OPEC) is to coordinate and unify the petroleum policies of its Member Countries and ensure the stabilization 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.

REDUCTION OF GOVT. BUDGETS DUE TO OIL PRICES

Growth in the GCC countries and Algeria is forecast to slow substantially in 2016, as the impact of lower oil prices is felt through tighter fiscal policy, weaker private sector confidence and the tightening of liquidity in the banking systems. The International Monetary Fund said this year's growth rate, forecast at 2.1 percent, would fall well below 2015's 3.6 percent, but no oil exporters are expected to fall into recession. "The fiscal consolidation process will continue and intensify in most countries in 2016. However, due to the further deterioration in oil prices, their fiscal deficits will not, on average, visibly improve this year."

Budget deficits in the region and Algeria are expected to increase to 13 percent of GDP this year, down from a surplus of 8.5 percent in 2013. In addition, the regional deficit will average 7 percent of GDP by 2021 or a cumulative $900bn during the 2016 to 2021 period, according to the IMF. In November 2014 the OPEC countries met in Vienna and agreed to keep pumping oil to maintain their market share rather than cut production to support the oil price. Data from the 2014 OPEC Annual Statistical Bulletin indicate that OPEC exported about 8.5 billion barrels of oil in 2015 at an average "OPEC basket" price of $49.49/bbl.

This is $46.80 lower than the $96.29/bbl average basket price in 2014 and represents almost $400 billion in decreased revenue. Allowing for the damping effect on other sectors of the OPEC economies it's reasonable to assume that most of the damage was done by lower oil prices. The numbers change for the four OPEC countries whose currencies are not pegged to the US dollar and which have responded to low oil prices by devaluing their currencies or by having the market it do it for them. The countries are Iran, which now shows a 26% increase in government expenditure between 2014 and 2015 rather than the 2% increase. Plunging oil prices have left many crude-exporting countries with budgets that simply won't balance. For many of the biggest producers — places like Saudi Arabia, Venezuela, and Algeria — oil accounts for the majority of the country's exports and gross domestic product. Collapsing prices have meant dramatic declines in government revenue at a time when many political leaders are working to maintain social stability through liberal spending.

DEPENDENCY ON OIL

The oil-consuming nations have been dependent on oil in terms of the amount of usage and utility it holds, it is one of the most highly demanded commodities in the market. The power of oil remains undisputed as there are 1.2 billion passenger cars, 98% of which rely on oil alone. The world consumes about 24 million b/d of gasoline and 27 million b/d of diesel fuel every day, a staggering 1.5 million gallons every minute. 2.83% of the world has just started consuming oil, these numbers will increase multifold due to the increase in population, the dependency of oil may not be completely eradicated due to this reason.

Majority of the industries survive and rely on oil or petroleum-based products to function efficiently. Finding other sources or looking for replacement through technology isn't the most feasible option for the majority of the developing or underdeveloped countries owing to the lack of manpower resources, or skilled and trained labour to find economic options to do the same. Similarly, products that have been developed to be used as a replacement for oil have been noted to be not as significantly efficient as oil which in turn becomes an uneconomical option to use. OPEC countries are highly reliant on oil and oil exports for more economical reasons, not only oil a commodity which has high demand and hence higher prices, the lack of a substantially developed economic source plays a huge role in the same.

Lack of abundance of other natural resource has been the primary cause of dependency of oil in countries like Libya, where 99% of export income is due to oil. Multiple factors like the social, geographic and political conditions of a country play an important role in the same. While consumer nations are highly dependent on oil and oil products, the producer nations have been under constant pressure to be accountable for the environmental factors of the ecology.

HOW THE UN'S CLIMATE CHANGE SUMMIT AFFECTS OPEC

The Paris Summit has been recognized as the best step in the right direction to take actions to reduce Climate Change, the main agenda of the same was to work towards Sustainable Development of natural resources and exploitation of the same in a friendly manner that would not disrupt the balance of nature. OPEC has stated that they will proactively take part in all discussion of the United Nations and give constructive ideas to curb climate control. While they offer unwavering support for the cause and its implementation, it will suffer from heavy economic impacts, along with reduced national income in terms of export. They will also suffer like any other country, an insufficient supply of
drinkable and clean water owing to the lack of water projection caused by the insufficient technological advances that enable the purification of the same.

ALTERNATIVES FOR OIL

The advances in technology and science have enabled multiple substitutes of oil to be used or developed without causing much destruction to the environment. Increasing practical and planned usage of renewable resources like solar, wind and thermal energy will reduce the pressure on the consumption and need for oil. Ensuring proper and efficient usage of nuclear energy will also help in reducing the burden and reliance on petroleum products.

The use of nuclear power substituted for oil causes almost negligible adverse effects on the environment, it can be used to generate electricity and reduce oil consumption for the production of electricity. More research in the field of renewable resources will enable technological advances such as the production of Green Oil.

FACTIONS INVOLVED

SAUDI ARABIA

Oil accounts for more than 80% of the total revenue generated in Saudi Arabia, they rely on exports of both oil and petroleum products for as much as possible and have deemed this as their primary source of national income. Their international reserves of oil have already gone down by 20%, this has had negative impacts on the economic superpower's GDP. They initially relied on talking to the OPEC committee to provide subsidiaries or change the market value of oil and petroleum products as a whole, but weighing the demand and the supplementary products in the market, it was deemed unwise to raise the price for an already valued raw material which has been monopolized by the USA, Saudi, and Russia. They tried to balance the budgets by reducing government provided subsidies, diverting spending on arms away from foreign partners and rationalizing public investment. Coupled with reducing the public wage bill by 5%, these reforms could amount to $53 billion in added revenues by 2020.
They also formulated plans that aim at diversifying the national wealth and diversifying the investment portfolio abroad. Of importance is privatizing part of the State-owned oil company Aramco, through an Initial Public Offering (IPO) - which produces 90% of government's revenues - to raise funds.

VENEZUELA

Its oil giveaway program became more of a burden than a boon for the Venezuelan government and economy, not oh did the budget experience sudden and immense loss in terms of resources and where to allocate them. They have been experiencing heavy amounts of pressure in terms of providing government services and help for the citizens of Venezuela. They have been undergoing crisis after crisis when the President of Venezuela decided that healthcare, which the primary need of the country, will not be provided for free. It was also further extended that the food and water subsidies provided to the people on behalf of the government and its funds will no longer be provided. It got to a point where hundreds of Venezuelan citizens were to the brink of starvation and disease epidemics due to the poverty rates of the country. Without the interference of the global forum and organizations, these situations would have had a far more criminal effect on the people of Venezuela. This high Dependency on oil exports in the country has been one of the biggest reasons that they did not formulate a secondary substantial source of income for the country. It had been warned multiple times by the UN to do the same and create a balanced budget that would not be shaken by the change in one of the factors

ANGOLA

Angola, Africa's second largest producer of oil has taken the biggest hit due to the drop in the prices of oil. It had been entirely dependent on these exports to provide for the people of the nation that was already poverty-stricken. With the lack of skilled and educated labour, oil mills and rigs were the primary sources of labour, income, and employment for the people. It struggled to fix a stronghold in the OPEC countries due to the same factors but made enough to help the citizens. There has been a plummeting drop in the numbers of the budget and the overall GDP or the nation, this has prompted many countries to import more from Angola but the big players in the league remain to be the
USA, Saudi, and Russia. The change and decrease in prices have caused inflation in prices, an explosive result of humanitarian crisis and a highly government-dependant population, helpless.

THE UNITED STATES OF AMERICA

The USA has seen an exponential boom in the oil market owing to the newly formed production line of oil in its region. The currency of the USA determines the value of the dollar and has often been a factor that affects the price of oil. It is a globally accepted currency that has been used to represent the value of commodities and services. This has given the USA a natural upper hand in terms of oil and oil production. Its allies are also strong oil and petroleum producing countries like Saudi Arabia. So even when the prices weren't experiencing a decrease or dip, they did not spend much on imports or were enjoying subsidies owing to the support of its allies and the help the USA gave them in return. The USA, as a superpower, not only had secondary sources of income but has also turned the situation in its favor. This growth in income has made the USA one of the only few countries including India that has not suffered a tremendous loss due to fluctuation in prices.

RUSSIA

Russia is the second biggest producer of oil in the world, while the president of Russia, Putin has not termed it as a loss to the nation's budget or economy there have been speculations of how this mass producer's economy is getting harder to balance. The second biggest source of its income has been arms and ammunition, for which they have received multiple warning of unfair and unlawful trading across borders for issues that may get worsened. Their strong set of alliances has ensured that their economic loss won't be a big set back in terms of government help, assistance, subsidiaries or changes in government policy. They have also adapted to the situation and are doing damage control by encouraging smaller and more developing industries in terms of trade and foreign investment

UN'S INVOLVEMENT:

The formation of OPEC helped the member countries in terms of bettering the communication of exports, prices, and the nation they export to. This was done with the intention to create a uniform, just and quick system for a uniform market with all the competitors. During the dip of oil prices in 2014, the committee not only helped the member nations financially but also provided them with advice, came up with a fair set of laws for the consumption and usage of oil and petroleum products. They have provided the developing member nations of the OPEC with technical and economic assistance to garner more strength towards their national economy which is further used for welfare. They ensure that these natural resources and reserves are exploited in a friendly and efficient way without developing countries being taken advantage of.

QUESTIONS A RESOLUTION MUST ANSWER

1. Why has the resolution to prohibit certain usages of oil and limiting dependency on oil as the sole source of national income been passed?
2. What are the changes necessary to reduce oil consumption on a global scale? What changes must be made to make it a sustainable effort?
3. What are the possible sources that may replace oil and petroleum products? How can those solutions be made economical and affordable?

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