



BACKGROUND GUIDE

# *WAMUNC XXIV*

OPEC

# *LETTER FROM THE CHAIR*

*'The measure of intelligence is the ability to change' -Albert Einstein*

Hello Everyone!

Welcome to the Organization of the Petroleum Exporting Countries. My name is Mitali Thepade and I will be serving as your chair for this committee. I am a junior from Pune, India studying International Business , Psychology and International Affairs at the George Washington University. At GW I am involved in various business organizations, the Model UN travel team , the International Affairs Society and have previously also served on the secretariat of WAMUNC. I am very excited to be your chair this year and look forward to the debate.

This committee is slightly technical so please take your time to understand how OPEC and oil pricing work. The two main topics we will be discussing over the course of the conference will be Energy Transition's effect on the oil industry and Avoiding an energy crisis amidst the Russian invasion of Ukraine. Since the second topic is quite new and volatile, we will be using the energy crisis from 2021 in Europe as a base for future planning in this committee.

I look forward to seeing everyone debate and collaborate to form solutions. WAMUNC is a great learning experience and I hope to provide a safe learning environment for everyone. Please be respectful towards each other , Model UN can be highly competitive but the goal is to collaborate and make friends. Feel free to email me with any questions. (mituthepade@gwu.edu)

# COMMITTEE OVERVIEW

OPEC is a cartel that strives to regulate oil supply in order to determine the price of oil on the global market, avoiding volatility that might harm the economies of both producing and buying nations. The Organization of Petroleum Exporting Countries (OPEC), which presents itself as a permanent intergovernmental organization, was founded in Baghdad in September 1960 by founding members Iran, Iraq, Kuwait, Saudi Arabia, and Venezuela. OPEC organizes and consolidates policy concerning petroleum production and output among its member countries. It guarantees a stable oil market with efficient and cost-effective petroleum supply. The major purpose of OPEC is to keep oil prices at a profitable level for its members while maintaining the market as free of constraints as feasible. The organization ensures that its members have a consistent source of revenue from an ongoing supply of oil. The Organization of Petroleum Exporting Countries (OPEC) is made up of 13 member countries. Iran, Iraq, Kuwait, Saudi Arabia, and Venezuela are the five founding members, with Algeria, Angola, Congo, Equatorial Guinea, Gabon, Libya, Nigeria, and the United Arab Emirates as full members. Currently, OPEC members control close to 75% of the supply of crude oil in the world. As delegates you will be focusing on how your country's goals align with the current petroleum policies globally.

## History of the Organization

Members of OPEC attempted to acquire more influence over oil prices by coordinating their production and export plans, albeit each member kept ultimate authority over its own policy. OPEC was able to keep prices stable throughout the 1960s, but its success promoted increased output, resulting in a slow decrease in nominal prices (not adjusted for inflation) from \$1.93 per barrel in 1955 to \$1.30 per barrel in 1970. OPEC members' major objective in the 1970s was to achieve total control over their petroleum resources. As a result, some OPEC members nationalized their oil reserves and renegotiated contracts with large oil firms.

OPEC increased oil prices over 70% in October 1973. Prices were raised by an additional 130 percent in December, two months after the Yom Kippur War (see Arab-Israeli wars), and the organization's Arab members, which had formed OAPEC (Organization of Arab Petroleum Exporting Countries) in 1968, curtailed production and imposed an embargo on oil shipments to the United States and the Netherlands, Israel's main supporters during the war. As a consequence, acute oil shortages and soaring inflation afflicted the Western world (see oil crisis). OPEC's political and economic dominance expanded as it proceeded to boost prices throughout the remainder of the decade (prices soared tenfold from 1973 to 1980). With their hands full of petrodollars, several OPEC members embarked on large-scale domestic economic and social development plans while also investing extensively abroad, notably in the United States and Europe. OPEC has formed a global fund to assist poor nations.

Although oil-importing countries reacted slowly to price increases, they eventually reduced their overall energy consumption, found alternative sources of oil (for example, in Norway, the United Kingdom, and Mexico), and developed alternative energy sources such as coal, natural gas, and nuclear power. In response, OPEC nations, notably Saudi Arabia and Kuwait, cut production levels in the early 1980s in a failed attempt to protect their stated prices.

In the 1980s, both production and prices fell further. Although Saudi Arabia bore the brunt of the production cutbacks, with oil income falling by four-fifths by 1986, revenues of all producers, including non-OPEC nations, plummeted by two-thirds over the same time as oil prices plunged to less than \$10 per barrel. The decline in revenues, combined with the ruinous Iran-Iraq War (1980–88), which pitted two OPEC members against each other, weakened the organization's unity and precipitated a major policy shift by Saudi Arabia, which decided that it would no longer defend the price of oil, but rather its market share. Following Saudi Arabia's example, other OPEC members quickly voted to keep output caps in place. Saudi Arabia's clout within OPEC was also visible during the Persian Gulf War (1990–91), which resulted from the invasion of one OPEC member (Kuwait) by another (Iraq), when the kingdom agreed to increase production in order to stabilize prices and minimize disruptions in the international oil market.

OPEC continued to prioritize output limits in the 1990s. Oil prices started to rise again in the early twenty-first century, due to stronger unity among OPEC members and improved collaboration with nonmembers (such as Mexico, Norway, Oman, and Russia), heightened tensions in the Middle East, and a political crisis in Venezuela. After reaching record highs in 2008, prices fell precipitously again as a result of the global financial crisis and the Great Recession. Meanwhile, worldwide efforts to minimize the use of fossil fuels (which has considerably contributed to global warming; see greenhouse effect) made it inevitable that global demand for oil would fall. OPEC sought to build a coordinated environmental strategy in response. OPEC's authority has risen and fallen since its inception in 1960, and it is expected to do so for as long as oil remains a viable energy source. One thing we realize from this is that crude oil plays an important role in any geopolitical issue and is also closely affected by the same. An important point to consider for Topic B in this would be how historically war has affected oil prices and markets and what actions have OPEC members taken to stabilize this.

### Membership and Competition from Non-Members

The Organization of Petroleum Exporting Countries (OPEC) is a group that sets output objectives for its members in order to regulate oil production. OPEC member nations generate around 40% of the world's crude oil. Furthermore, according to the United States Energy Information Administration, OPEC's oil exports account for almost 60% of all petroleum sold internationally. Because of this market dominance, OPEC's actions have a significant impact on global oil prices. Saudi Arabia, OPEC's biggest crude oil producer, has the most frequent impact on oil prices. Crude oil prices have historically risen when OPEC output objectives are decreased.

Country ▲	Date OPEC Entry	2022 Population
Algeria	1969	45,350,148
Angola	2007	35,027,343
Ecuador	1973	18,113,361
Equatorial Guinea	2017	1,496,662
Gabon	2016	2,331,533
Iran	1960	86,022,837
Iraq	1960	42,164,965
Kuwait	1960	4,380,326
Libya	1962	7,040,745
Nigeria	1971	216,746,934
Qatar	1961	2,979,915
Republic of the Congo	2018	5,797,805
Saudi Arabia	1960	35,844,909
United Arab Emirates	1967	10,081,785
Venezuela	1960	29,266,991

## OPEC and OPEC+'s Influence on Oil Prices

Countries that produce oil on a worldwide scale are either members of OPEC, OPEC+, or non-OPEC states. Algeria, Angola, Congo, Equatorial Guinea, Gabon, Iran, Iraq, Kuwait, Libya, Nigeria, Saudi Arabia, the United Arab Emirates, and Venezuela are the 13 members of OPEC.

In late 2016, ten non-OPEC countries joined OPEC to establish OPEC+ in order to gain more influence over the global crude oil market. Azerbaijan, Bahrain, Brunei, Kazakhstan, Malaysia, Mexico, Oman, Russia, South Sudan, and Sudan were among them. Not unexpectedly, OPEC+ has even more power over the global economy than OPEC. Responding to extremely volatile economic and geopolitical circumstances, these organizations alter their oil production capacity, affecting oil supply levels and causing oil price volatility.

## Control of the Market by OPEC

OPEC's oil exports account for nearly 60% of the petroleum traded globally. According to the Energy Information Agency, more than 80% of the world's known crude oil reserves are located inside the borders of OPEC nations. In 2018, nearly two-thirds of that fell inside the Middle Eastern area. Furthermore, all OPEC member countries have been consistently developing technology and boosting explorations, resulting in additional increases in their oil production capacity at lower operating costs.

### OPEC+ Nations

According to Tamas Varga, senior analyst at PVM Oil Associates and reported by CNBC, OPEC+ controls more than half of world oil supply. OPEC+ retains its clout for three fundamental reasons: A lack of other sources that are comparable to its dominating position. In the energy industry, there is a scarcity of economically viable alternatives to crude oil. The pricing advantage of OPEC production over non-OPEC production because to its lower cost.

In summary, OPEC+ has the economic potential to interrupt or increase oil supply to significant levels at any moment, causing oil prices to plummet. For example, the 1973 Arab oil embargo by OPEC caused prices to treble from \$3 to \$12 per barrel, and more recently, Saudi Arabia's rapid increase in production in March 2020 resulted in a dramatic drop in the price of oil. On April 20, 2020, the front-month May 2020 WTI oil contract fell 306 percent, or \$55.90, for the session, to finish at minus \$37.63 a barrel on the New York Mercantile Exchange, as a momentary lack of cooperation between Russia and Saudi Arabia contributed to the lockdown. This implies that oil owners had to pay to acquire buyers for their commodity.

## Non-OPEC Production's Impact on Oil Prices

Non-OPEC oil producers are countries that produce crude oil but are not members of the OPEC club, as well as shale oil producers. Surprisingly, several of the top oil-producing countries are not members of OPEC. This comprises the number one producer, the United States of America, as well as Canada and China.

Most non-OPEC nations have high consumption levels and, as a result, limited export capability. Despite being large producers, many are net oil importers, which implies they have little impact on oil prices. However, with the discovery of shale oil and shale gas, non-OPEC oil producers, mainly the United States, have seen increasing output and market share. While this has been a game changer in certain ways, shale oil technology demands significant upfront expenditures, which deters shale oil producers.

So far, the judgment is out on whether non-OPEC producers can have a meaningful influence on crude oil prices. Non-OPEC members' strong production levels from 2002 to 2004 and again in 2010 did not result in price decreases, but rather in higher oil prices. This is most likely due to non-OPEC members not having a large enough market share to influence oil prices. However, high output from 2014 to 2015 caused prices to fall. According to market analysts, the price decrease was most likely caused by an increase in production by OPEC members in response to the challenge to their hegemony presented by non-OPEC producers.

Many non-OPEC members also change their oil output voluntarily in reaction to OPEC decisions. They expanded output in the 1990s to take advantage of OPEC's constraints. As a consequence, oil prices fell and everyone profited. Mexico, Norway, Oman, and Russia are among the non-OPEC members that are collaborating.

That lesson was not learned by oil shale producers. They continued to produce oil, causing prices to collapse in 2014. As a consequence, many have dropped below their break-even point of \$65 a barrel. OPEC did not intervene to reduce its output. Instead, it allowed prices to decline in order to keep its market dominance. For the majority of its members, the break-even price is substantially lower. However, American manufacturers became more efficient. It is interesting to consider how competition from outside can play an important role in the prices of oil fluctuating.

### Particular Considerations

The dynamics of the oil industry are complicated, and oil prices are determined by factors other than demand and supply, even if the market is the ultimate arbiter of the price of oil. Under normal global market circumstances, OPEC+ will retain its dominance in determining oil prices. Despite difficulties such as fracturing technology and oil finding in non-OPEC countries, OPEC's worldwide market power enables it to manipulate output limits and remain a key role in oil price setting.

### Saudi-Russian Price War

OPEC executives issued an ultimatum to Russia in early March 2020 to reduce output by 1.5 percent of global supply. Russia, which expected more cutbacks as American shale oil output surged, rejected the proposal, thereby terminating OPEC's three-year collaboration with major non-OPEC suppliers. Another cause was a drop in worldwide demand as a consequence of the COVID-19 epidemic. As a consequence, 'OPEC plus' failed to renew the deal to reduce 2.1 million barrels per day, which was slated to expire at the end of March. Saudi Arabia, which has taken a disproportionate share of the cutbacks in order to persuade Russia to remain in the accord, informed its importers on March 7 that it will increase production and discount its oil in April. This resulted in a more than 30% drop in Brent crude prices before a minor rebound and considerable chaos in financial markets. Several commentators regarded this as a Saudi-Russian pricing war, or a game of chicken in which the "other side blinks first."

Saudi Arabia has \$500 billion in foreign currency reserves in March 2020, while Russia has \$580 billion. Saudi Arabia had a debt-to-GDP ratio of 25%, whereas Russia had a ratio of 15%. Another observer pointed out that the Saudis can produce oil for as little as \$3 per barrel, but Russia need \$30 per barrel to meet production expenses. According to another observer, "it's about attacking the Western economy, particularly the American economy." To avoid an oil exporters' price war, which might make shale oil production uneconomical, the US may adopt the NOPEC bill to defend its crude oil market dominance.

OPEC and a group of other oil producers, including Russia, agreed in April 2020 to prolong production restrictions through the end of July. The cartel and its partners agreed to restrict oil production by 9.7 million barrels per day in May and June, equivalent to around 10% of world supply, in an attempt to support prices, which had already plummeted to historic lows.

### OPEC-Russia Energy Alliance

OPEC is joining forces with a 10-nation oil alliance headed by Russia. Iran opposes the agreement because it will allow Saudi Arabia and Russia to control the organization. After Saudi Arabia, Russia is the world's second-largest oil exporter. On July 2, 2019, the participating nations ratified a three-year cooperation charter, an agreement to foster ongoing ministerial and technical discussion. They generate over half of the world's oil production. OPEC would continue to meet on a regular basis, but the Russia-led group would also be present. Iran would prefer that the two groups meet only in times of crisis. Taking into account the current situation, delegates are highly encouraged to understand what implications this has on oil markets.

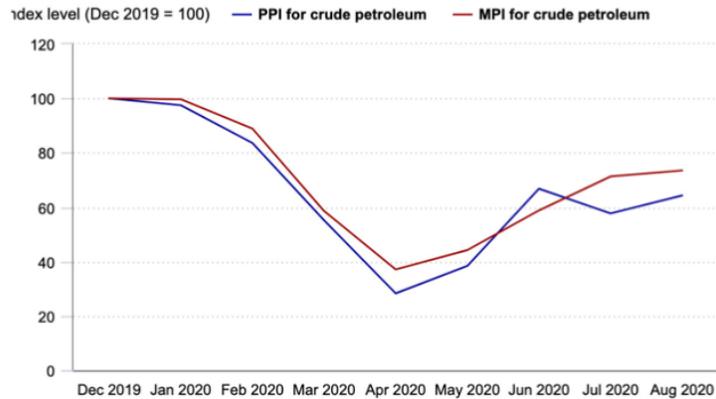
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## Topic 1 : Energy transition and its impact on oil prices

For decades countries have debated the issue surrounding oil usage and energy consumption. With most countries planning to move away from fossil fuels in the future, OPEC needs to focus on how divesting from oil will impact OPEC and its member countries. Increasing social and environmental pressures on fossil fuel companies raise complex questions about the role oil plays in the energy economy. Energy transition refers to the switch from fossil fuels to renewable energy in the global energy sector in order to reduce carbon emissions.

With the Covid-19 pandemic we saw the prices of oil drop significantly creating shockwaves throughout the world. Following a steep drop in the early months of the pandemic, crude petroleum prices began to rise at the end of April 2020. Producer prices for crude petroleum recovered partially from April to June, while import prices recovered similarly from April to July. The price rise began with a drop in supply, with a positive shock to demand eventually adding as well. Faced with US pressure and with no place to store any further petroleum excess, Saudi Arabia announced an emergency meeting of OPEC+ from April 9 to 12, 2020. OPEC+ members agreed to record production cutbacks during the summit, and Russia obliged this time as well. The accord called for a total output decrease of 9.7 million barrels per day through the end of June, the greatest ever. (At a subsequent meeting, the cutbacks were extended until the end of July.) OPEC output plummeted to its lowest level since May 1991 as a result of the deal. In the end, Saudi Arabia, Kuwait, and the United Arab Emirates decreased output beyond the agreed-upon levels, while non-OPEC countries also cut production. Economically this was a heavy price most OPEC members had to pay. If within the next few decades with the advancement in technology and prices of renewable options such as solar energy, wind energy, etc go down, OPEC members need to formulate a long term strategy to integrate this into the system.

**Figure 1. Producer and import price indexes for crude petroleum, December 2019–August 2020**



Click legend items to change data display. Hover over chart to view data.  
Note: PPI = Producer Price Index; MPI = Import Price Index.  
Source: U.S. Bureau of Labor Statistics.

## Saudi Vision 2030

In 2016, Saudi Arabia announced its long term goal of moving away from oil in the Saudi Vision 2030 plan. Their aim is to focus on research and development on hydrogen based energy. Oil accounts for 30–40% of Saudi Arabia's actual GDP, without adding the share of the economy that is also dependent on oil distribution. Since the 1970s, one of the government's priorities has been to reduce its reliance on oil supplies. However, execution of this aim has been uncertain and is still heavily reliant on the price of oil. The primary goal is for the government to be able to establish alternate sources of revenue, including taxes, fees, and income from the sovereign wealth fund. Another important part is to reduce the country's residents' reliance on government expenditure by spending on subsidies, better wages, and boosting the private sector's contribution to the economy in order to create more jobs. This can be compared to other Middle Eastern development plans, such as Kuwait Vision 2035, Egypt Vision 2030, and the UAE Vision 2021. With several countries planning to move away from oil, incorporating this into OPEC is key along with considering the feasibility of these plans.

## Environmental Impact

The environmental effects of crude oil have always been a concern within the international community. Environmental challenges such as oil spills , carbon emissions , disturbance to ecological environments have been a major concern but also the limited availability and the expense that occurs with exploration activities. A question that OPEC has been focusing on is drilling in the Arctic, however, the environmental impact of this can be catastrophic and has received pushback for the same reason.

## Advancements in Renewable Energy

Non-renewable energy sources are limited and expensive to procure , produce and refine. Countries for decades have been focusing on the research and development of renewable energy sources. As renewable energy gets more accessible and cheaper , the dependence on fossil fuels will decline. While there are some hints of improvement in the oil market, the overall trend is unfavorable. Concerns about stranded assets and the carbon bubble are starting to have an effect, with investor concerns about physical, policy, and liability risk making markets difficult for oil. The green bond market had a fantastic year in 2020, surpassing \$1 trillion in issuance since 2007. The market is rising overall, with \$665 billion, or over three-quarters of a trillion dollars, in sustainable debt issued in 2020. This latter amount covers green and climate bonds, as well as social bonds, sustainability bonds, and sustainability-linked loans.

Simultaneously, there is increasing demand on businesses to report on climate risk and environmental effect. Environmental, social, and governance (ESG) investment is also increasing, with the worldwide sector being worth \$38 trillion in assets under management, according to the most recent estimates (AUM). The world's ability to generate power from solar panels, wind turbines, and other renewable technologies is expected to rise rapidly in the future years. Global renewable electricity capacity is expected to increase by more than 60% from 2020 levels by 2026, reaching over 4 800 GW - similar to the present total global power capacity of fossil fuels and nuclear

combined. Renewables are expected to account for about 95 percent of the increase in global power capacity until 2026, with solar PV accounting for more than half of it. The amount of renewable capacity added from 2021 to 2026 is estimated to be 50% more than from 2015 to 2020. This is due to increased government policy backing and more ambitious renewable energy objectives stated prior to and during the COP26 Climate Change Conference.

### Questions to consider

- How can OPEC adapt to changes in global energy transition?
- With increasing governmental and social pressures to shift from fossil fuels how can OPEC members find sustainable economic solutions ?
- How managing production help with the current crisis in the energy market?
- In what ways can OPEC work with Governments to ensure a viable transition?



## Topic 2 : Global energy crisis with emphasis on the European markets

The ongoing energy crisis that began in late 2021 is expected to continue until 2022. It has already had far-reaching effects on the economy, the environment, and security. There are three major parts to the crisis: COVID-19 and supply chain disruptions, increased interconnection of natural gas markets, and signals of energy price volatility throughout the energy transition away from fossil fuels. Energy costs and availability threaten to jeopardize the global economy's slow recovery from the COVID-19 pandemic. The pandemic caused an unprecedented decline in energy demand and prices, but rebounding demand is again putting pressure on fossil fuel markets for oil, gas, and even coal. Prices are soaring as demand outstrips gasoline supply, which has yet to recoup from the pandemic dip.

### European Energy Crisis

Due to a mix of variables on both the supply and demand sides, Europe is experiencing a perfect storm in its natural gas market. Demand has risen due to a variety of factors, including Europe's colder winter, which caused people to keep their houses heated for longer than normal. This, along with the phase-out of coal and a poor year for wind output, has increased demand for natural gas. On the supply side, there are various difficulties, including reduced maintenance of oil and gas fields during the COVID-19 crisis and less investment. Furthermore, Europe is reducing its domestic natural gas output. The Netherlands, Europe's biggest domestic producer of natural gas, began phasing out their main gas field Groningen in 2018. The amount of operational gas in storage in Europe is presently at 74%, down from 94% at this time last year.

## NordStream 2

Nord Stream 2 is a pair of natural gas pipes that will stretch 1,200 kilometers along the seabed of the Baltic Sea from Ust-Luga, Russia to Greifswald, Germany if/when finished. The two pipelines, known together as Nord Stream 2, are expected to transport 55 billion cubic meters (BCM) of gas each year. Nord Stream 2, which is nearing completion, will run approximately parallel to Nord Stream 1, a comparable pair of pipes built between 2010 and 2012 with a total capacity of 55 BCM of gas per year. Nord Stream 2 is being developed by a project firm in which Russia's energy firm, Gazprom, has the majority interest. Uniper and Wintershall (German), Engie (French), OMV (Austrian), and Royal Dutch Shell (Dutch/British) are the company's international financial partners. The European Union now imports over 40% of its natural gas from Russia, accounting for roughly one-third of total gas consumption. In 2001, Gazprom launched talks with European firms over a direct Russia-Germany gas pipeline. It delivered gas to Western Europe at the time via pipelines that mostly passed via Ukraine, but also Belarus and Poland (the Yamal system). Gazprom also began selling gas to Turkey via the Blue Stream pipeline beneath the Black Sea in 2003. Nonetheless, the majority of gas was transported via Ukraine. Gazprom transited 112-122 BCM per year westward through Ukraine's gas transit infrastructure from 2003 to 2008 (prior to Nord Stream 1).



The route of a proposed new gas pipeline from Russia to Europe.

[nord-stream2.com](http://nord-stream2.com)

Nord Stream 2 will be completed by the Russian government and Gazprom. Gas sales to Western Europe have long been a significant source of export earnings for Moscow, despite the fact that gas exports are not nearly as crucial to the Russian economy as oil exports. Gazprom had predicted that import demand in Europe would rise. While Gazprom intends to increase demand as the British North Sea and Dutch gas resources diminish, Europe is focusing on energy saving, greenhouse gas reduction, and renewable energy sources. Germany is in an interesting situation. Oil and gas are vital to Germany's manufacturing sector, but the nation generates very little energy at home and relies on imports for 98 percent of its oil and 92 percent of its gas supplies. Russia already provided the majority of its oil and gas as of 2015. (40 percent and 35 percent respectively). The 1,200-kilometer pipeline runs from Russia to Germany, but its proposed route passes across the territorial seas and EEZs (Exclusive Economic Zones) of three additional countries: Finland, Sweden, and Denmark. National governments and municipal governments stand to profit economically from planned investment and job creation, but politicians and military experts have highlighted concerns about European security. The concerns surrounding increasing dependence on Russian oil is an important aspect to focus on during debate.

### Implications of Russian Invasion of Ukraine

European countries for long have been concerned about increasing Russian influence in Eastern Europe. With Russia invading Ukraine recently, this brings up major energy concerns for the highly dependent European energy market. While the United States increases its LNG export capacity to Europe, the true spare capacity producers in both LNG and oil will be in the Gulf. Three nations are important in this regard: Qatar for its gas output, the United Arab Emirates, and Saudi Arabia for expanded oil production capacity. Other OPEC+ members have been producing less than their limits. Increasing output today is a business as well as a political choice. The price of oil is soaring above \$100 per barrel and is set to increase in the upcoming days. Sanctions placed on Russia will cause the prices to rise higher due to the supply shortage.

**WTI Crude (March Contract)**  
**115.68 +7.44%**



For the most part, energy markets in Western Europe face an immediate supply risk, although Russian gas continues to flow via Ukraine to Europe, and Russian oil exports have not yet been sanctioned by the US and Europe. However, Russian oil and gas businesses' share prices have been negatively damaged, and they may expect some reluctance from their investors and foreign energy company partners in any planned initiatives or capital investment in new projects.

Questions to consider

- Should OPEC continue to work with Russia ?
- What are ways in which OPEC can fulfill the energy requirements globally?
- What can OPEC do to control the rising prices of oil?
- How will Russia's invasion of Ukraine affect the EU's ongoing energy crisis?

## Definitions

Barrel : The basic unit for measuring oil. (42 gallons)

BOPD : Barrels of oil produced per day

Crude oil : The basic oil in its raw state as it comes out of the ground

Benchmarking Measures Data and information used as a point of reference against which industry performance is measured.

Fracking : A government-regulated technology used safely for more than 60 years to recover shale or tight natural gas that is trapped in deep underground rock.

Shale : Rock formed from clay. Shale is frequently a “tight” type of rock, having small or widely spaced pores that trap oil or natural gas.

Drilling : Drilling is the process of cutting holes in a solid material using a rotating cutting tool.

Drilling Rig : A drilling unit that is not permanently fixed to the seabed

