



SMUSMUN 2023

OPEC

Letter from the Director

Thank you for choosing the Organization of Petroleum Exporting Countries as your committee choice for the 3rd annual SMUSMUN! My name is Zephyr, and I'm honoured to be the Director for OPEC this year. This is the first time that I have personally seen OPEC as a committee choice for Model UN, and I can't wait to see the lively debate, negotiations, and plans that delegates will formulate over the two days of conference.

Now a bit about myself. I'm a grade 12 student at SMUS, and have been in Model UN since I was 12 years old, with my first conference being ShawMUN here on Vancouver Island. I also run the Politics and Law club here at the school, and this is my second year being the Editor of the student newspaper. I love listening to music and am unhealthily obsessed with podcasts.

Enjoy researching, and I look forward to reading your position papers and meeting you all in April!

Best,

Zephyr

Beginning Note and Topic:

OPEC is a unique committee, and operates differently than other Model UN topics. When beginning your research, consider what countries within OPEC align with your state's ideology, but also what position your country holds in the international oil industry. If you're a developing state, consider how much oil your country has historically produced, and whether they dominate the industry or remain a smaller exporter. Consider what strategies OPEC has used to control oil prices, and how the organisation has responded to crises. The topic involves creating a long term plan for OPEC, including setting quotas, and this will all be done through politically motivated negotiators. While the real OPEC is less impacted by politics, our 'model OPEC' will be driven by each country's diplomatic position and political goals. There will be a crisis that will significantly impact the oil industry, so prepare well because it will be a large focus of one of the two conference days.

History of OPEC

Formation

After World War II, middle eastern states began to emerge as dominant powers in the global oil industry. During this time, the United States dominated oil production and consumption alongside the ‘seven sisters’, a group of multinational companies, five of which operated out of America. In 1959, price cuts for Venezuelan and middle eastern oil in favour of Canadian and Mexican oil led to outcry from exporting nations who were against western political strategies impacting oil prices. Frustration over western control of oil mounted until 1960, when oil exporting countries came together to form OPEC and work against independent oil companies. OPEC was then founded in Baghdad by Iran, Iraq, Kuwait, Saudi Arabia, and Venezuela.¹

1973 Oil Embargo

In 1973, the markets were favourable for OPEC members to nationalise oil production and move industry control away from private businesses. With more authority over oil in their regions, OPEC members collectively raised the prices of oil, causing an oil crisis in 1973. The crisis was heightened by the Yom Kippur War, which had prompted OAPEC (Arabic countries of OPEC plus Syria and Egypt) to enforce an oil embargo on the United States for supporting Israel. States like the UK and USA were forced into a period of emergency energy rationing, leading to a shortened work week, bans on non-essential driving, and a limit on available gas purchasable per vehicle. This led to global recession, inflation, unemployment, and is generally considered the end of the post-WWII economic boom. It also warned western nations of the power that OPEC and nationalised oil holds when the states collaborated to target countries and raise the prices of oil.

1979–1980: oil crisis and 1980s oil glut

Alongside high oil prices in the 1970s, the Iranian revolution and the Iran-Iraq war disrupted oil production, leaving western buyers uncertain. Although only 4% of global oil wasn’t available on the market, widespread panic led to prices reaching \$40 dollars per barrel. This motivated industrial nations to invest in alternative energy sources such as coal, nuclear energy, or natural gas; interest in the

¹“Brief History.” n.d. OPEC. Accessed January 8, 2023. https://www.opec.org/opec_web/en/about_us/24.htm.

possibility of oil fields in Siberia, Mexico, or Alaska also increased. This reflected poorly on OPEC oil, as states ended their dependence on middle eastern oil and OPEC's market share decreased by 20% within six years to only 30% by 1985. This represented a massive upheaval of OPEC domination in the oil industry since the organisation's founding, and the 1980s is characterised by western stories of success such as the development of oil rigs in the North Sea.



Individuals enjoyed picnics on deserted highways throughout western countries, as the price of oil led to a significant decrease in use of cars.

Saudi Arabia attempted to increase appeal for middle eastern oil in the 1980s after global demand decreased and western countries moved to alternative energy sources. Despite aggressively cutting production with the hope of elevating prices, the kingdom's production fell and the state lost a dramatic amount of market share.

Price Collapse and Output cuts in 1998-99

In 1997, Asia experienced a financial crisis that reduced the price of oil. OPEC failed to respond quickly, but led to the organisation being able to discuss price cuts with non-OPEC members such as Mexico, which improved the impact of their 1999 cuts and allowed for higher prices in the future decade.

Price Spike of 2004

Oil prices began to dramatically increase beginning in 2004, and despite regular meetings, OPEC seemed unable to control the market and steady prices. This was largely due to increased demand, supply shortages, and political uncertainties. Rapid development in Asia and North America drove up demand, while many nations failed to provide ‘finished products’ instead exporting crude oil. Increased conflict in Nigeria and threats to the stability of Iraq and Middle Eastern oil put pressure on oil prices as well.² Despite hosting emergency meetings and making arrangements to meet demand, oil prices were largely out of OPEC’s control.

2008 Production Dispute

Oil prices peaked in 2008, and crashed soon after to \$30 a barrel during the Great Recession. During this time, internal conflict between OPEC member-states grew, specifically between less wealthy members and high production OPEC countries. Saudi Arabia was historically concerned that possible high prices or less stability in the oil industry would lead other countries to developing alternative energy sources or conserve fuel, leading to a decreased demand for oil like in the 1980s. Production cuts proposed by developing member-states conflicted with Saudi Arabia’s plan to keep a steady and reliable flow of oil into the global market. Negotiations began but were largely unsuccessful, with Saudi refusing to cut production of oil despite the committee’s decisions.³

OPEC+ 2016

In 2016, OPEC formed an alliance with other oil producing countries, later referred to as OPEC+. This included Russia, Kazakhstan, Oman, and Mexico. This happened in response to OPEC members’ concern over increasing American market share; cooperating with other major oil exporting countries allows OPEC to influence oil prices more effectively. OPEC+ is a more informal agreement with ten new states, and is unlikely to continue long-term as the countries have different incentives and goals for their individual oil exports.

²European Central Bank. n.d. “RECENT DEVELOPMENTS IN OIL PRICES.” Recent developments in oil prices. Accessed January 16, 2023. https://www.ecb.europa.eu/pub/pdf/other/mb200505_focus01.en.pdf.

³Piotrowski, Matt. 2015. “OPEC’s History of Oil Market Management: It’s Complicated.” The Fuse. <https://energyfuse.org/opecs-history-of-oil-market-management-its-complicated/>.

Structure of OPEC

OPEC meets twice a year in Vienna, Austria to determine the policy of OPEC and consider pending membership applications. Those who attend are typically appointed representatives for their state's oil industry, such as Ministers of Petroleum, Oil, Energy, or another similar title. Similar to the United Nations, OPEC decisions come in the form of non-binding resolutions, meaning that they are voluntary and subject to change at any point. All resolutions but approval for new membership requires unanimous support to pass,

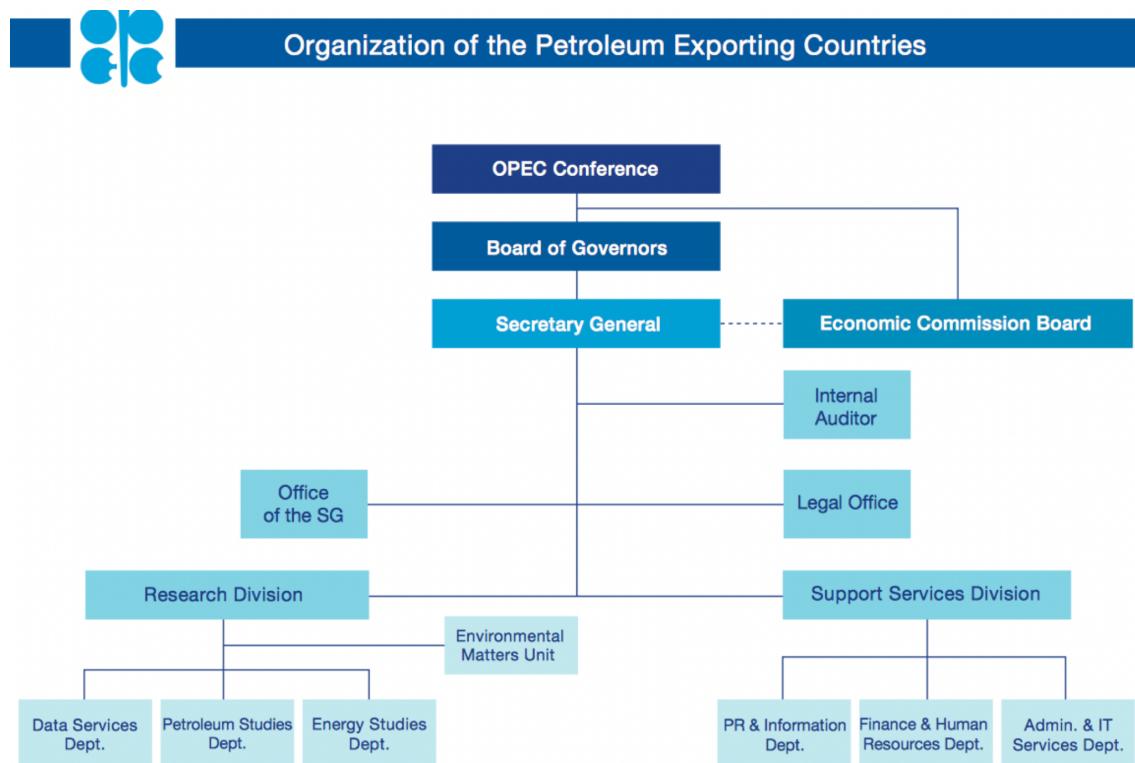
The members of the Board of Governors are chosen by each member country and sit for a term of two years. According to OPEC's official website, the board is responsible for “direct[ing] the management of the Organization, implement[ing] resolutions of the Conference, [and] draws up the Organization’s annual budget to submit it to the Conference for approval.”⁴ It decides on reports submitted by the Secretary General and submits recommendations for the affairs of the organisation. The Board of Governors oversees the implementation of resolutions, and works on smaller details such as drafting bills or researching for recommendations, allowing the main Conference to focus on larger concerns when meeting.

The Secretariat exists to “carry out executive functions”, being more logistical tasks rather than making any direct decision for OPEC, and does so under the direction of the Board of Governors. This makes them responsible for implementing all resolutions passed during OPEC’s biannual meeting. It also acts as a research team to monitor developments in the energy and petrochemical industries, financial or political concerns that may impact oil prices, and make informed estimations about future progress in the oil industry. Within the research team there are three departments: Data services, Energy, Studies, and Petroleum Studies, alongside an Environmental Matters Unit.

Since its formation, OPEC has worked to expand diplomatic relations beyond member countries and oil exporting nations, allowing them to advance control and further influence the oil markets. Recently OPEC began ‘energy dialogues’, meetings with non-OPEC countries and organisations to encourage discussion and strategies in the constantly shifting oil industry. These meetings are non-binding and infrequent, promoting discussion between international consumers and producers of oil (OPEC, Russia, India, and the EU being the most frequent). OPEC uses Joint Ministerial Monitoring Committees to implement agreements passed by member and non-member countries. OPEC also allows any country to

⁴ OPEC. 2017. “Joint Ministerial Monitoring Committee concludes inaugural meeting.” OPEC. https://www.opec.org/opec_web/en/press_room/4062.htm.

attend meetings as an observer, unable to vote, they can still make suggestions and influence oil discussions. It also provides a platform for communication and the exchanging of ideas.

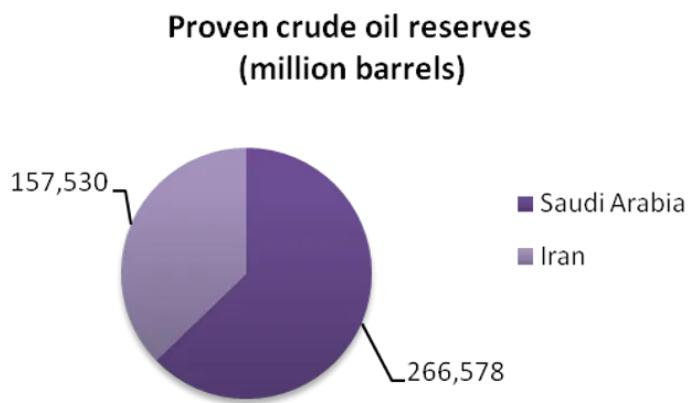


Factions Within OPEC

While OPEC attempts to be politically unbiased, tension is frequent between member countries. While states like Venezuela have opposed involvement in politics, Saudi Arabia has historically used oil as a political advantage, such as their oil embargo on the states that supported Israel in the 1973 Yom Kippur war.⁵ A 2011 meeting left tensions within OPEC after Saudi Arabia was unable to sway members to increase production as a result of losses during the conflict in Libya. Currently, a huge internal conflict within OPEC has been between Iran and the Arab countries, again led by Saudi Arabia. While both Iran and Saudi Arabia continue to be members of OPEC, Iran is largely Shia Muslim, while Saudi Arabia is a leading Sunni Muslim power. An example of this conflict impacting oil occurred during a 2016 OPEC meeting, when conflict over Iran's return to oil exportation tainted discussions regarding output levels.

⁵Britannica, T. Editors of Encyclopaedia. "Arab oil embargo." Encyclopedia Britannica, October 1, 2020. <https://www.britannica.com/event/Arab-oil-embargo>.

The United States had successfully agreed upon a nuclear deal with Iran, leading to the removal of several significant sanctions on the state's energy sector, and allowing them to begin their return to exporting regular levels of oil. Iran claimed they would reach levels as high as 2012, before the EU sanctions had been imposed, largely in an effort to take back their lost market share. During this time, oil prices dropped dramatically, prompting Saudi Arabia to meet with Russia, Venezuela, and Qatar to discuss the possibility of a production freeze to increase demand. Despite two months of negotiations, Saudi Arabia was concerned that Iran would use it as an opportunity to increase their own exportation, and refused to freeze output, showing disunity within OPEC as an organisation. For these countries, oil is a tool used for political influence in the middle east, with America frequently supporting Saudi Arabia, and Russia and China favouring Iran, tensions will continue as long as this cold war will last. OPEC loses when there is public tension between member states, as it often leads to deadlock that can damage the organisation's perceived credibility and stability, and causes the formation of opposing blocs that prefer different resolutions or terms during negotiations.⁶



Saudi Arabia compared to Iran in proven crude oil reserves during 2016 negotiations.

OPEC's Influence

OPEC is considered a cartel, which is defined by the Organisation for Economic Co-operation and Development, as a firm that "raises or fixes prices and to reduce output in order to increase profits".⁷

⁶Mandaville, Peter, Knox Thames, Anshu Siripurapu, and Andrew Chatzky. 2016. "OPEC in a Changing World." *Council on Foreign Relations*, 2016. <https://www.cfr.org/backgrounder/opec-changing-world>.

⁷Meredith, Sam. 2018. "Saudi Arabia and Iran's 'intensifying' feud could soon end OPEC-led supply cuts, strategist says." *CNBC*, April 3, 2018. <https://www.cnbc.com/2018/04/03/saudi-arabia-and-irans-intensifying-feud-could-soon-end-opec-led-supply-cuts-strategist-says.html>.

This negatively impacts consumers because it makes the product either too expensive or completely unavailable, and gives companies a monopoly on a specific resource or industry. While OPEC has historically received immunity from anti-cartel legislation, countries like the US are considering introducing bills to intervene if OPEC attempts to manage the market and aggressively raise prices. While OPEC is legally considered a cartel, they have been economically ineffective at truly coordinating prices and following through with the decided production cuts. For example, between 1982 and 2009, OPEC member countries cheated on their quotas by 96% on a monthly basis, making the quota announcements unreliable to the actual production of OPEC members. This both diminishes OPEC's power in controlling the market, and causes members to focus on only trying to produce and export as much oil as possible.⁸ This is the case for most international cartels, because ultimately leaders are focused on their own national interests, and don't trust their fellow members to follow the set production quota.⁹

While OPEC members make up 80% of the world's proven oil reserves, they are unable to operate with complete control over the market because members are forced to consider competitors when deciding on production and prices. This means that OPEC can strategically choose to cut production of oil to raise prices, but can be hurt by competitors who can then fill the loss by exporting oil normally. If competitors are undercutting OPEC, the organisation can also choose to set lower prices, flooding the market with cheap oil and effectively pushing out other producers. While this works in theory, it relies on OPEC being able to coordinate rapid production of petrol, and convince member countries to absorb the losses of selling undervalued oil.

OPEC Strategies

OPEC decides on production for member states each biannual meeting. This is dependent on energy prices and what is expected for the industry in the next six months. In 2016, OPEC began production cuts for the first time in eight years, and have continued this strategy to date, adjusting depending on the market.

⁸ Gürcan Gülen, S. 1996. "Is OPEC a Cartel? Evidence from Cointegration and Causality Tests." *Department of Economics Boston College*, (May).

⁹ Gürcan Gülen, S. 1996. "Is OPEC a Cartel?"

	August 2022 Required Production	Voluntary Adjustment	Voluntary Production
Algeria	1,055	-48	1,007
Angola	1,525	-70	1,455
Congo	325	-15	310
Equatorial Guinea	127	-6	121
Gabon	186	-9	177
Iraq	4,651	-220	4,431
Kuwait	2,811	-135	2,676
Nigeria	1,826	-84	1,742
Saudi Arabia	11,004	-526	10,478
UAE	3,179	-160	3,019
Azerbaijan	717	-33	684
Bahrain	205	-9	196
Brunei	102	-5	97
Kazakhstan	1,706	-78	1,628
Malaysia	594	-27	567
Mexico	1753	0	1,753
Oman	881	-40	841
Russia	11,004	-526	10,478
Sudan	75	-3	72
South Sudan	130	-6	124
OPEC 10	26,689	-1,273	25,416
Non-OPEC	17,167	-727	16,440
OPEC+	43,856	-2,000	41,856

Agreed production cuts for October 2022

In October 2022, it was decided that OPEC members would “adjust downward the overall production by 2 mb/d (billion barrels per day) from the previous August 2022 required production levels”.¹⁰ OPEC also established a Long Term Strategy in 2015, which outlined three possible scenarios in the future of the industry and how OPEC could respond to each.¹¹

Most OPEC member states rely on oil as their primary source of national income, making the impacts of oil policies consequential. Ultimately, each country does what will benefit and further their economy, and most state’s have a “break even” target production and price that they set to meet individually. This is according to their economic circumstances, production capacity, financial position,

¹⁰ https://www.opec.org/opec_web/en/press_room/7021.htm

¹¹ OPEC. 2022. “Media” OPEC.

https://www.opec.org/opec_web/static_files_project/media/downloads/publications/OPECLTS.pdf.

and any other possible factors that may influence oil production in the region. This means that countries have a minimum production level that they will require is met by OPEC during negotiations.

Oil for Security

The idea of “oil for security” emerged during American deals with Saudi Arabia. The kingdom provides the United States with oil priced in American dollars (keeping the dollar as the global currency) and purchasing a significant number of American weapons. Fundamentally, Saudi Arabia is trading cooperation and good oil deals in exchange for protection. Despite a turbulent relationship between the two states (the most recent being Saudi support for Russia during the invasion of Ukraine), oil has brought them together in a relationship of dependence.¹²

Guiding Questions:

1. What strategies has OPEC used in the past to manage and coordinate oil prices? Has this been effective? Why was it effective?
2. Are there any recent conflicts that may impact oil short term? And how should OPEC approach creating a long term strategy while addressing the short term economic needs of each member?
3. What is the current political situation in your country? Would this impact oil production or how you should approach negotiations?
4. How will other countries' record of sticking to quotas impact your plan for OPEC? Is there a way to incentivize or force them to follow through with promised production output?

¹² Farrell, Henry. 2022. “The US relationship with OPEC and Saudi Arabia is getting complicated.” *The Washington Post*, October 10, 2022.
<https://www.washingtonpost.com/politics/2022/10/10/if-opec-is-cartel-its-not-very-good-one/>.

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